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UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

REPORT OF THE TRADE AND DEVELOPMENT BOARD ON THE FIRST PART OF ITS FORTIETH SESSION

held at the Palais des Nations, Geneva,
from 20 September to 1 October 1993

Volume II

Summary of proceedings

UNITED NATIONS

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Preface

This volume (volume II) of the report of the Trade and Development Board on the first part of its fortieth session contains the summaries of statements made during the session.

All other matters relating to the first part of the fortieth session of the Board are to be found in volume I of the report, entitled Report to the United Nations General Assembly.* These include action taken by the Board, statements of position in relation to that action, the procedural and institutional matters, and diverse annexes.

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* See TD/B/40(1)/14 (Vol. I).

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INTRODUCTION

1. In his opening statement, the **President** underlined the significance of the current session of the Board, coming as it did midway between UNCTAD VIII and UNCTAD IX. In reviewing the work of the Standing Committees and Ad Hoc Working Groups established at Cartagena the Board could draw on the lessons learned so far - on both substance and working methods - in deciding on its future work.

2. The discussion on growth dynamics in the context of global interdependence would take place at a time when the world economy seemed to be settling into a pattern of slow growth. The Trade and Development Report, 1993 (UNCTAD/TDR/13) was not optimistic about the prospects for the remainder of the 1990s: an increase in cyclical and structural unemployment, growing fiscal imbalances and government indebtedness, persistent trade imbalances, widespread financial fragility and a weakening of international efforts to coordinate exchange rates and trade policies. The national policies which the TDR advocated represented the kind of bold, concerted action which was needed to lift the world economy out of its current morosity.

3. For policy makers, one of the more thought-provoking conclusions of the TDR was that some developing countries, particularly those in sub-Saharan Africa, remained largely outside the scope of global growth dynamics and risked becoming completely marginalized. Owing to a combination of factors - including structural economic problems, natural and man-made disasters and a persistently unfavourable external environment of which depressed commodity prices were but one aspect - these countries had been unable to halt the decline in per capita incomes since the 1980s, often in spite of rigorous structural adjustment programmes. The Report's prescriptions for revising both domestic and international policies to meet the challenge of poverty and marginalization therefore deserved careful consideration.

4. The current serious predicament of many developing countries was, in varying degrees, associated with continuing external debt problems. As the TDR pointed out, more than 60 developing and other countries were in arrears with their foreign creditors and remained entangled in debt rescheduling. Several others had honoured their heavy debt-servicing obligations only at a high cost to their economies. He hoped that the Board would not only address the problems facing heavily indebted countries but also echo the Report's call for early action, both by official bilateral and multilateral creditors and by commercial banks, to further reduce outstanding debt burdens.

5. In discussing trade and environment in the framework of international cooperation, the Board would be acting in the spirit of Agenda 21 which recognized that the success of the new global partnership established at the Rio de Janeiro Conference in June 1993 depended on the international community's ability to overcome confrontation and foster a climate of genuine cooperation and solidarity. This agenda item provided an opportunity for the Board to contribute to this cooperative process. The secretariat report on this topic (TD/B/40(1)/6) identified a number of areas in which strengthened international cooperation might be particularly relevant as a means of increasing the mutual supportiveness of environmental and trade policies.

6. Regional economic integration was another important and topical item on the current agenda. The traditional pattern of integration processes was changing while their number was increasing. The potential impact of integration groupings on third countries and on the international trading system deserved particular attention and the secretariat report (TD/B/40(1)/7) should enable the Board to have a focused discussion on this and other important aspects of the integration process. Equally topical would be the Board's discussion on the Uruguay Round, whose fate now seemed to hang largely upon the ability of the leading trading nations to settle some outstanding issues among themselves. In the meantime, however, vigilance on the part of the other negotiating parties, particularly the developing countries, was called for in order to ensure that their interests, and the undertakings concerning them contained in the Punta del Este Declaration and elsewhere, were not overlooked as pressure mounted to reach a settlement.

7. With regard to the problems of land-locked developing countries, he expressed satisfaction at the positive and constructive outcome of the recent Meeting of Governmental Experts from Land-Locked and Transit Developing Countries and Representatives of Donor Countries and Financial and Development Institutions (New York, May 1993). In endorsing the report of that Meeting (TD/B/40(1)/2) and transmitting it to the General Assembly, the Board should send a strong message in support of early concrete action to implement the measures recommended by the experts.

8. Within the broad frame of its mandate and competence, UNCTAD could intensify and reorient its work in support of the efforts of the Palestinian people in the Gaza Strip and the West Bank to revive and build up a sound economy. To this effect, it could consider, inter alia, developing a programme of technical assistance involving all substantive areas of its competence. The results of the intersectoral project on prospects for sustained development in the Palestinian economy, currently being completed by the secretariat, could provide the elements for such a programme of technical assistance. The findings of the project could also help to guide the task force recently established by the Secretary-General of the United Nations to integrate the approach of the United Nations system in providing assistance to the Palestinian people. He hoped that the work of the Board on this item would help the secretariat to develop such a programme and to make a useful contribution to international efforts to assist the Palestinian people.

9. Finally, referring to the current financial crisis faced by the United Nations, he urged the Board to set an example in the efficient use of available resources. His own efforts in this direction would not be confined to the Board, since he intended also to follow closely the work of the subsidiary bodies. The secretariat had to work with limited resources. The member States could not continue to place on the secretariat additional demands for documentation beyond the capacity of delivery of the secretariat, thus burdening the system as a whole. He intended to discuss these matters in detail with the Secretary-General of UNCTAD with a view to evolving an efficient and a responsive system of working methods, at the level of both the Board and the subsidiary bodies.

10. In his introductory statement, the **Secretary-General of UNCTAD**, focusing on conclusions flowing from the Trade and Development Report, 1993, outlined the factors underlying the continued stagnation of the world economy. Despite the recessionary trend, Governments of most major developed countries had been reluctant to pursue more expansionary macro-economic policies partly for fear that such policies would be inflationary and further aggravate government deficits and debt. There was now a compelling case for countering global recession through global reflation, notably by applying fiscal stimulus in concert. In most developed countries, however, policy remained deflationary, apparently counting on exports in order to grow out of recession rather than acting to stimulate international demand.

11. The secretariat believed that the situation demanded an innovative response. Governments needed more room to raise demand by increasing their own expenditures on goods and services. Accordingly, they needed to reduce their interest bills by tackling the stock of existing debt. Reducing deficits by reducing public expenditure or raising taxes - which was the traditional way - would inevitably be deflationary. But doing so through further privatization where feasible and a one-time levy on holdings of financial assets need not be. This would allow a reduction of government debt while freeing current revenue for increasing spending. Moreover, a simultaneous relaxation of monetary policy, for which there was considerable scope in Western Europe, would be helpful not only in stimulating aggregate demand but also in reducing the public sector interest bill.

12. Notwithstanding the recession in the developed countries, growth in the developing world had continued in 1992 and was expected to remain strong in 1993, especially in East and South-East Asia. The fast-growing countries of the latter region had given strong support to private business and to exports, using a panoply of controls and subsidized credit. Growth in the region had been driven by high levels of public and private investment, growing productivity, and export diversification. China's growth in particular owed much to the reform of its central planning system but the process had been gradual and devoid of shock treatment. Regional integration had been another important growth factor, with increasing interdependence providing the countries with fast-growing markets for one another's manufactures and commodities. The region was thus becoming a growth pole for the world economy.

13. Radical policy shifts in Latin America had also led to improved financial performance and growth, but some aspects of this success such as the huge swing in the net transfer of resources might not be sustainable: the repatriation of flight capital was not an inexhaustible source, responses to privatization were probably one-off, and flows propelled simply by interest rate differentials might not be durable. Moreover, growth had been driven mainly by consumption and manufactured exports lacked dynamism.

14. In the countries of sub-Saharan Africa, growth remained poor and per capita incomes were still lower than 20 years ago, despite structural adjustment programmes. They had continued to suffer from a deterioration of their external environment, and had been especially hard hit by falling commodity prices. Losses on the terms of trade had been far in excess of

development assistance; this had prolonged the debt crisis and severely hampered structural adjustment. Public expenditure had been cut and exchange rates had been under excessive pressure. Moreover, support for agriculture had been largely at the expense of industry and had not resulted in significant diversification.

15. The economic ills in Central and Eastern Europe included widespread contraction and unemployment. The effects of price liberalization had been patchy, long-term financing had become scarce and privatization had run into greater difficulties than expected. The former discipline of the plan had not been replaced by an effective financial discipline of the market, and Governments had found it difficult or impossible to control money, credit and public finances. These developments raised questions not only about the wisdom of delaying reforms but particularly about the appropriateness of shock therapy as well as its chances of success. A market economy consisted not only of the predominance of private ownership and a minimum of government control; it was also a complex multitude of institutional frameworks, traditions and norms that had usually evolved over time.

16. Turning to debt issues in the development context, he observed that the debt crisis persisted in some 60 countries - mainly poor and mostly in Africa - but had changed in character. The international financial system itself was no longer in danger, and the key problem now was the level of debt owed to Governments and international financial institutions (IFIs). Improvements were needed in the scale of debt reduction: the Trinidad terms should be adopted by all creditors as a benchmark and reduction should be granted all at once. Moreover, eligibility should be extended to all heavily indebted low-income countries. There should be greater pragmatism and flexibility in handling arrears owed to the IFIs and the "soft windows" of these institutions should be adequately replenished, inter alia with SDRs and IMF gold sales. As for commercial bank debt, the Brady deals completed so far had had some beneficial effect, but many smaller countries needed lower financing costs and larger debt reduction. For this purpose, Governments of creditor countries should exert greater moral suasion on banks. The severe debt problem in the Russian Federation called for special measures, and he outlined several proposals, including a comprehensive medium-term debt relief programme and fair burden-sharing by official and private creditors.

17. As for trade and environment, the starting point of the secretariat's work in response to the mandate given by the Rio de Janeiro Conference in 1992 had been the concept that all countries had a common but differentiated responsibility for the main environmental problems. The Conference had also agreed that for developing countries and those in transition, policies to promote sustainable development should be supported by improved market access, increased financial assistance and technical cooperation. The secretariat report on this item (TD/B/40(1)/6) identified areas for upgrading the mutual supportiveness of trade and environment policies, such as the expansion of trading opportunities for developing countries, prevention of trade conflicts, maintenance of an open trade system, prevention of detrimental effects of environmental policies on the growth of developing countries, and greater coherence among the diverse national policies.

18. The rapid increase in regional integration arrangements, which now covered almost one half of world trade, raised legitimate questions about their impact. Analysis suggested that their general effect was not necessarily unfavourable, but vigilance was needed to avoid harm being done to particular countries or products. Not all countries were equipped to offset the effects of stiffer competition or trade diversion. The Board could engage in a dialogue on the economic implications of integration arrangements, with a view to ensuring that such arrangements were outward-oriented, promoted a more liberal world trade and investment regime, and fostered the economic growth both of participants and of third countries.

19. On the question of the Uruguay Round, he noted the disturbing resurgence of the protectionist philosophy which held that living standards in the developed countries had declined as a result of competition from dynamic developing countries and, most recently, from countries in Central and Eastern Europe. The view that exports from more efficient producers, including developing countries, were "unfair competition" should be firmly rejected by Governments in order to safeguard the multilateral trading rules that had underpinned development and cooperation since World War II. The experience of the Uruguay Round had highlighted the need for more intensive consensus building. UNCTAD was well placed to contribute to this effort under the mandate reaffirmed in the Cartagena Commitment and in the light of its ongoing work in such areas as trade and the environment, and competition issues.

20. As for the recommendations adopted by the Meeting of Governmental Experts from Developing Land-Locked and Transit Developing Countries (New York, 17-19 May 1993), he considered that they provided a framework for more effective cooperation to resolve transit problems. The Board might therefore wish to react to these recommendations and make proposals to the General Assembly for their effective implementation.

21. Finally, he observed that the Board's consideration of the item on UNCTAD's assistance to the Palestinian people came at a propitious time, now that the Israelis and the Palestinians had initiated a process that could radically transform relations between them, with far-reaching ramifications in the whole region. The economic and social reconstruction was a formidable task that would need the support of the international community. Referring to the high-level task force set up by the United Nations Secretary-General to establish an integrated United Nations approach to the development of the occupied territories, he said that the Board could now provide guidance on UNCTAD's future assistance to the Palestinian people, under existing mandates and in the light of the new situation.

22. The spokesman for the **Group of 77** (Brazil) observed that, with the end of the cold war, the ideological battles of the past were being replaced by a more pragmatic partnership. Recently, the agreement signed between Palestine and Israel had marked the first step towards establishing a durable peace in the region. The international community had a distinct role to play in ensuring the success of this process by providing its moral and material support.

23. Notwithstanding the many changes that had taken place recently, the world was still marked by very big differences between the rich and the poor countries, and more than a billion people still languished in absolute poverty in developing countries. There was human suffering on an immense scale, often related to natural disasters and to ethnic and military conflicts with their attendant displacement of millions of refugees. The main problems of development, however, could not be resolved so long as the world economy continued to stagnate. In tackling this problem, it was essential to avoid piecemeal, fragmented approaches and to consider the whole question of development from an integrated and comprehensive perspective. The coordination of macroeconomic policies among the developed counties was essential in order to stabilize the international economy. UNCTAD should promote initiatives contributing to the convergence of national programmes and of international decisions on trade and development, with the aim of enabling developing countries to participate in all growth strategies. He added that UNCTAD should explore early warning mechanisms to avoid conflicts, in accordance with paragraph 52 of the Cartagena Commitment.

24. The specific measures needed to reflate the world economy included new approaches to reduce government deficits and debt, while using fiscal and monetary policies to stimulate growth and to fight growing unemployment. The developed countries should give a fiscal stimulus to the world economy through concerted action, and similar efforts should be made to increase demand collectively. In this context, the suggestion made in the TDR that Governments should reduce deficits through privatization and a one-time tax on private sector holdings should be given serious consideration.

25. Developing countries that were heavily dependent on commodity export earnings had faced persistent difficulties in the 1990s, notably falling prices in either real or nominal terms and large stock overhangs. Compensatory financing facilities had been unable to cope with this situation and to meet the financing needs of the developing countries. The Group of 77 therefore considered that the international community should, as a matter of urgency, take a fresh and in-depth look at the most appropriate way of helping developing countries to overcome the problems caused by commodity earnings shortfalls.

26. In general, foreign economic assistance had declined in many developed countries and was unlikely to rise again before the resumption of economic growth in those countries. It was unfortunate that the TDR had barely touched an ODA, which was particularly important for the LDCs. Although a number of measures had helped to reduce the debt burden of developing countries, many of them, especially the LDCs, were still hobbled by debt. More debt relief was needed, but the critical issue was an adequate level of external financial support for adjustment and reform, leading to increased investment and growth. Problems calling for attention included the up-front costs of arrangements under the Brady plan, improvements in the terms and eligibility criteria of Paris Club provisions, the handling of arrears owed to IFIs, and the resource needs of middle-income countries which were servicing their substantial debt burdens at great cost to themselves.

27. Referring to the current stalemate in the Uruguay Round, he said that the uncertainty and risk of disruption in the multilateral trading system had intensified bilateral trade arrangements and unilateral action. The Group of 77 looked to see the conclusion of the Round by 15 December 1993 consolidating an effective commitment to a rule-based system of multilateral trade, reinforced by the establishment of a multilateral trade organization. The Round should be finalized in a balanced manner, taking full account of the needs of the developing countries, particularly in the matter of market access. An evaluation of the results of the Round relating to trade in goods, in accordance with Part I, section G, of the Punta del Este Declaration, was essential in order to ensure that the developing countries received differential and more favourable treatment.

28. Turning to sustainable development, he argued that trade liberalization, including the reduction of tariffs and non-tariff measures - especially in agriculture - could make a substantial contribution to sustainable development. International cooperation to achieve sustainable development should be based on the Rio Declaration and Agenda 21, and on the principle that all countries had a common but differentiated responsibility for the main environmental problems. Above all, environment-related standards and regulations should not have a negative impact on growth and competitive policies in developing countries.

29. The rapid proliferation of regional integration arrangements in recent years held policy implications for developing countries and for the international trading system. Developing countries with weaker and less diversified export capacities might have to face trade diversion of their particular commodities. Regional integration efforts should result in the creation of trade and investment, not diversion. Although many developing countries had reformed their own integration groupings and adopted market-oriented and outward-looking policies, current levels of trade among the members remained low. In view of this, the Standing Committee on Economic Cooperation among Developing Countries should work out concrete support measures for strengthening the economic integration of developing countries, in response to the needs presented to it by specific groupings. Furthermore, the integration schemes of the developed countries, especially the European Community, should identify new opportunities for economic interaction with developing countries, provide technical support on new rules and regulations and encourage joint ventures.

30. With reference to progress under the Programme of Action for the Least Developed Countries for the 1990s, he noted that international support measures to complement the difficult domestic reforms undertaken by the least developed countries had been inadequate, especially in meeting ODA targets. Corrective policy action was now needed to provide the necessary ODA, debt relief and market access. As for the land-locked developing countries, the Group of 77 fully endorsed the agreed conclusions and recommendations of the expert group meeting held in New York in May 1993 and recommended that the Board forward the report of the meeting, together with the reports by the UNCTAD secretariat, to the General Assembly for appropriate action. He added that his Group also fully associated itself with the decisions

taken at the Eighth Meeting of the Intergovernmental Follow-up and Coordination Committee on Economic Cooperation among Developing Countries (Panama City, 30 August - 4 September 1993).

31. In conclusion, he stated that the Group of 77 remained deeply committed to the irreplaceable mission of UNCTAD and would continue to support all efforts to strengthen this universal and democratic organization. UNCTAD was a pioneer in the restructuring process and played a major role in the United Nations system.

32. The representative of **Belgium**, speaking on behalf of the **European Community and its member States**, praised the secretariat for the quality of the documentation submitted to the Board at its current session, especially the TDR, which was always stimulating. Most documents had been issued in good time for the session, but this was regrettably not so for all the working languages. It was simply not acceptable that the documentation in French - one of the two working languages of the secretariat - was available for hardly any of the substantive agenda items. Spanish had fared little better.

33. The Board was meeting against a backdrop of disappointing performances in the world economy, especially in the industrialized countries. The forecast was for a world GDP growth of only 1.4 per cent in 1993. In the Community countries, unemployment now stood at the high level of 11.5 per cent. The search for possible remedies was still going on.

34. The most positive aspects of the current situation included the relatively high growth rate of the volume of world trade (5.6 per cent in 1993) and the overall growth rate of the developing countries for the same year (5 per cent). The latter figure, however, masked considerable regional divergencies and in sub-Saharan Africa economic growth lagged behind population growth. He hoped that the Board would, at its current session, reflect in greater depth on the most appropriate domestic policies for stimulating growth and development in the third world countries.

35. For the European Community, 1993 was a historic year, marking the creation of the Single Market. The free circulation of goods, services and capital would favour not only European enterprises but also those of third countries, in particular the developing countries. The Agreement establishing the European Economic Space was due to be concluded between the EC and EFTA countries by the end of the year.

36. The strengthening of the multilateral trade system and increased liberalization of trade were essential to an improvement in the world economic outlook, and it was now imperative to achieve a positive conclusion to the Uruguay Round, notwithstanding the difficulties. For its part, the Community would do everything possible to reach a successful outcome.

37. The external debt situation had continued to improve for the largest debtor countries, but the plight of many poor countries was still precarious. The Paris Club was to be commended for having improved the conditions for the rescheduling or the reduction of debt, and he hoped that all creditor countries would follow suit in granting adequate concessional

terms to the poorest and most indebted countries that were carrying out economic reforms. Moreover, joint efforts were urgently needed to ensure the volume, direction and effectiveness of ODA, as well as rapid progress towards the United Nations 0.7 per cent target. He called for a more equitable sharing of the burden of development aid among the donors.

38. First and foremost, however, it was essential to achieve a better design and implementation of macroeconomic programmes and reforms in the developing countries, emphasizing economic stabilization, market orientation and the growth of the private sector, without losing sight of the need for social development. Greater attention should be paid to environmental constraints in promoting economic growth, and reforms should be adapted to the specific needs of each country. It was of the utmost importance that such reforms be marked by decentralization, good governance and the reduction of undue military expenditure. In many African countries especially, reform targets should focus more closely on the long-term development of human resources and the gradual diversification of production.

39. With regard to the work done by UNCTAD in the wake of the eighth session of the Conference, he said that the Community countries were generally satisfied with the progress so far in the Standing Committees and Ad Hoc Working Groups. Further thought could no doubt be given to improving the organization of the work, but the progress made and the less formal atmosphere in the Committees and Working Groups, as well as in the Board, were encouraging signs for the follow-up to Cartagena. The Community was also pleased to see the initial success achieved by UNCTAD in establishing a balance between the three pillars of action emanating from the Conference, namely comparison of national experiences, development of technical cooperation, and reflection on the international economy in order to come up with solutions to the problems of the developing countries. UNCTAD was also well equipped to take account of new aspects in the international economy, especially sustainable development issues, in accordance with its mandate. Finally, he urged UNCTAD, both in the subsidiary bodies and in the secretariat, to play its full role in favour of Africa and the LDCs.

40. As for the restructuring of the UNCTAD secretariat, he called on the secretariat to integrate as soon as possible the Centre for Transnational Corporations and the Centre for Science and Technology for Development, and thereafter to conclude its own reorganization with a view to imparting a fresh dynamism to the work of the new subsidiary bodies. The secretariat and the member States must continue to set priorities and to respect them, taking into account the inevitable limitations placed on resources.

41. The representative of **China** expressed his delegation's appreciation for the very positive and high-level contribution made to the work of the current session of the Board by the Trade and Development Report, 1993. The dramatic and profound changes that were taking place in the world economy were opening up unprecedented opportunities and challenges. In recent years most developing countries had been making great efforts to reform and restructure their economies, but world economic recession, stagnation in the commodity markets, reductions in the levels of development assistance and mounting foreign debt had combined to hinder the success of their efforts. As pointed

out in the Trade and Development Report, the North-South gap was growing ever wider. He cautioned, however, that unless there was firm economic development in the developing countries, there could be no expansion of the world economy as a whole. For this to happen, it was necessary to change the external environment, to eliminate unfair trading practices and to promote cooperative international relations as envisaged in the Cartagena Commitment.

42. As the Board set about tackling the very important items on its agenda, he urged the developed countries to shoulder their responsibility for world growth and to see to it that the interests of all developing countries were taken into account. He called in particular for continued efforts to alleviate the debt problem and for major trading nations to achieve a successful and balanced outcome to the Uruguay Round. Regional economic cooperation should lead to greater integration of the world economy. However, the strengthening of multilateral trade regimes and macroeconomic policies should contribute to development, and should not serve as a pretext for introducing trade restrictions. He expressed the hope that the celebrations marking the thirtieth anniversary of UNCTAD would help UNCTAD to play a positive role in the revitalization of the world economy and the economies of the developing countries.

43. Finally, he expressed his delegation's support for the statement made by the spokesman for the Group of 77, which offered a profound and realistic analysis of the world situation and the impact this was having on the developing countries. China stood ready to contribute fully to the work of the Board at this critical juncture.

44. The representative of **Switzerland** commended the secretariat on the quality of the documents submitted to the Board. The work done by the secretariat was all the more remarkable in that UNCTAD's working conditions had steadily deteriorated in recent weeks. He supported the declared intention of the President to use his influence to increase the efficiency of the organization and to reduce running costs in response to the budgetary restrictions now weighing on the United Nations. The action taken by the Board at the beginning of its current session, for example, to simplify the preparation of the draft report was an encouraging reaction to the budgetary constraints.

45. The Swiss delegation associated itself with the complaint lodged by the spokesman for the European Community concerning the effects of the crisis on the translation of the Board's documents into all official languages. Translated versions were either late or not available at all. Moreover, some meetings had had to be held without simultaneous interpretation. This turn of events was worrying and likely to affect the quality of member States' participation. He felt that participants should tackle this problem as a matter of urgency, perhaps in consultations held during or just after the current session. In theory, two extreme solutions could be envisaged: (i) a reduction in the number of working languages; (ii) a reduction, or a better spacing, of the meetings on the calendar to guarantee adequate translation and interpretation services. His delegation would have difficulty with both solutions. It was important to devise practical and pragmatic

solutions so that UNCTAD could work properly, while respecting the basic operational rules of the organization and, in particular, the principle of equality of the official languages.

46. The representative of the **Russian Federation** praised the high level of the documents submitted to the Board. This year's issue of the TDR in particular was a high-profile document which had generated much public interest, and he looked forward to hearing the comments of other institutions and organizations. In dealing with the problem of external debt and structural adjustment, the TDR had paid special attention to the countries in transition. This was the first time that the report had dealt fully with the economic reforms in the East European countries and in the Russian Federation. He could not agree with all the assessments and conclusions in the report, but this was no doubt because the secretariat had not had at its disposal reliable information on recent legislation or the latest statistical data. His delegation would therefore try to fill in some of the gaps when the Board took up individual agenda items.

47. Although there were many problems affecting the pace of reform and the different approaches adopted in his country, Russian enterprises were making great efforts to integrate into the world trading system. A national programme for reform adopted for the period 1993-1995 aimed, inter alia, at the stabilization of production, economic growth and liberalization, lifting restrictions on prices and on international links, the lowering of inflation, schemes for training personnel to operate in a competitive environment, structural adjustment, adapting economic activity to demand, and the pursuit of an active social policy. Undoubtedly, the integration of his country's economy into the global economy corresponded to the needs of the international community as a whole. In this connection, decisions were being taken with regard to the access of the Russian Federation to GATT. He added that his country's Customs legislation now made provision for GSP preferences to be granted to developing countries. The Russian Federation was ready to develop its foreign economic links still further, but was often thwarted in this endeavour by protectionism on the part of its partners. He therefore appealed to the international community to apply the same rules to all participants and to reserve the same treatment for Russian goods as for those of other countries. As for the agreement reached with the Paris Club in April 1993 for the alleviation of his country's foreign debt, he stated that the Russian Federation would pursue vigorously its own efforts in this area. He trusted that his country could count on the support of UNCTAD.

48. Turning to the question of structural adjustment for the transition to disarmament and the conversion of military resources for the purpose of development, he said that this was a serious matter that opened up whole new prospects. He therefore hoped that the terms of reference for the Ad Hoc Working Group on this issue would be approved at the current session of the Board so that the Working Group could begin its work soon.

49. Finally, he expressed his delegation's satisfaction in general at the work done so far by the Standing Committees and Ad Hoc Working Groups. As for the reforms that were currently under way in the UNCTAD secretariat, he referred in particular to the merging of the Centre for Transnational

Corporations and the Centre for Science and Technology for Development with UNCTAD and expressed the hope that the new activities would prove fruitful and lend fresh impetus to the work of UNCTAD.

50. The representative of **Slovakia** said that many changes and new experiences had occurred in her country in the six months that had elapsed since the previous session of the Board. Since 1 January 1993, Slovakia had faced many challenges in its transition towards a market-based economy. Many complex problems lay ahead, but the mood in the country was one of strong determination and hope. The TDR, in striving for an all-encompassing generalization, did not reflect the actual situation in her country - which was difficult but promising - and she was therefore not able to share all the evaluations made in the report.

51. The gradual implementation of Slovakia's reform policy increased the possibilities for direct foreign investment and for transfers of technology. The private sector was becoming more active in mobilizing domestic resources. She hoped that the international environment would be conducive to the creation of more open and accessible markets, which were a prerequisite for Slovakia's successful transformation and sustainable development. To this end, Slovakia was ready to cooperate towards a successful conclusion of the Uruguay Round negotiations and towards enhanced regional economic cooperation. Her country was determined to behave as a responsible economic partner in its economic relations. The Government of Slovakia attached great importance to its participation in the work of UNCTAD and her country was a member of four Standing Committees and five Ad Hoc Working Groups. Many Slovak experts attended these bodies in order to share their experiences and views and, still more, to see what contribution and technical assistance UNCTAD could provide to Slovakia's transition process. In this connection, the Board had an indispensable role to play in ensuring sustainable development. Its tasks were not easy, but she hoped that, in spite of its scarce resources, UNCTAD would make a successful contribution to development and trade in line with the Cartagena Commitment.

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Tribute to the memory of Mr. Michael Tobin

52. At its 827th (opening) plenary meeting, on 20 September 1993, the Trade and Development Board paid tribute to the memory of Mr. Michael Tobin, a prominent staff member of the UNCTAD secretariat of some 25 years standing, who died on 22 July 1993. The Board conveyed through the President its condolences to Mr. Tobin's wife and daughter.

Chapter I

INTERNATIONAL IMPLICATIONS OF MACROECONOMIC POLICIES AND ISSUES CONCERNING INTERDEPENDENCE: GROWTH DYNAMICS IN THE CONTEXT OF GLOBAL INTERDEPENDENCE

(Agenda item 2)

53. For its consideration of this agenda item the Board had before it the following document:

Trade and Development Report, 1993 (UNCTAD/TDR/13).

54. Opening the debate on agenda item 2, the **Chief of the International Monetary Issues Branch, Global Interdependence Division** highlighted the main features of Parts One and Two of Trade and Development Report, 1993.

55. The representative of **Sudan** expressed agreement with the analysis of the Trade and Development Report concerning the dismal state of the world economy and difficulties of reform in developing and former socialist countries. He drew attention to the Report's list of the causes of poor performance of sub-Saharan African countries in implementing structural adjustment programmes, which ranged from adverse trends of commodity prices and lack of external resource transfers to natural and social causes. However, the Report failed to devote sufficient attention to the increasing scrutiny by donors of domestic policies. He stressed that conditionality had increased in severity and involved interference in the internal affairs of developing countries.

56. The increasing number of aid recipients was leading to a diminution of the share and absolute level of financial flows to Africa. The financial pledges made to some former socialist countries were playing an important role in this connection. Moreover, recently most assistance to African least developed countries had been in the form of humanitarian aid from NGOs and hence had not been administered by local authorities. Such aid would have no impact on the development programmes of the countries concerned. Finally, he drew attention to the burden of external debt, which persisted despite the initiatives of the Paris Club and continued to be an impediment to recovery, reform and development.

57. The spokesman for the **Asian Group** (India) said that the Trade and Development Report, 1993 was quite sanguine on the prospects for early recovery of the world economy. Macroeconomic management in the developed countries had a direct bearing on the outcome of reforms in developing countries, but most developed countries were reluctant to pursue an active fiscal policy to provide a stimulus to their economies. Nevertheless, there should be a concerted fiscal stimulus and a collective effort to increase global demand. The recommendation in the Report of a one-time capital levy deserved careful consideration.

58. The market for commodities had been depressed for the past several years and was marked by excess supply and falling prices due to a sharp decline of imports by the former socialist countries and to recession in developed countries. For manufactures also the unit values of exports of developing countries had continued to decline in relation to those of developed countries. Developing countries had been progressively reducing tariff and non-tariff barriers, but these reductions had not been matched by similar action on the part of the developed countries. There was a need for more equity in world trade, for a reduction of uncertainty in the international trading system, and for greater market access for developing countries' exports. The conclusion of the Uruguay Round in a manner that took into account the concerns of the developing countries would be helpful, as would a reduction in exchange-rate volatility.

59. He observed that the access of many developing countries to the international capital market was hampered by unfavourable perceptions of their creditworthiness. This had also led to high cost and restrictive conditions for official insurance cover for their export credits. It might be necessary to establish some multilateral modalities which would help commercial banks to improve their perceptions of the creditworthiness of developing countries. As a result of liberalization and deregulation, financial markets were now far more integrated globally than ever before. Consequently, greater coordination and harmonization of supervisory and regulatory procedures were required, not least in order to allow developing countries to give foreign banks easier access to their markets.

60. Finally, he said that a number of developing countries continued to suffer from a severe debt burden and there was still a need to improve mechanisms for debt reduction. In order to enable the international financial institutions to increase their net transfers to developing countries, new SDR allocations and IMF gold sales should be considered. Moreover, reduction of commercial debt should be accelerated by Governments of creditor countries through the exertion of greater moral suasion on banks and through improvements in their tax and regulatory provisions.

61. The representative of **Chile** agreed with the Trade and Development Report's diagnosis of the evolution of the world economy, especially its assertion that the world economy was becoming more dynamic and more interdependent. He expressed concern at the protectionist measures adopted by the developed economies to fight the recession: although developed countries were putting pressure on the developing countries to liberalize trade, they themselves were reluctant to do so. Furthermore, slow growth of the developed economies was having a negative impact on exports from developing countries.

62. The reforms undertaken in Chile had led to an increase in both exports and imports, thus contributing to an increase in international trade. In spite of the reforms carried out in most of Latin America, however, economic assistance to the region had decreased and had been diverted to other regions currently facing bigger problems. Latin America, including Chile, now needed to consolidate economic reform and direct more attention to aims such as the

eradication of poverty. Outlining the success of the Chilean economy, such as the high growth rate due to the high investment rate and the consequent reduction of unemployment, he said that an important task now was to improve the quality of work. To this end it would be necessary to have access to new technology and new markets to increase international competitiveness. He added that greater openness in the markets of developed countries would prevent the crisis in their economies spilling over to the detriment of developing countries. Finalization of the Uruguay Round should lead to the creation of a strong multilateral trade organization with transparent norms that were respected.

63. Finally, he commended the work of UNCTAD, especially in the fields of investment, technology transfers and trade efficiency, and expressed support for the setting up of a working group to analyse issues related to structural adjustment and the transition to disarmament.

64. The spokesman for the **least developed countries** (Bangladesh) called attention to the fact that economic performance in Africa as a region continued to be inferior to performance elsewhere because of structural problems, falling commodity prices, internal instability and climatic disasters. He questioned the scant treatment of least developed countries and ODA in this year's Trade and Development Report, in contrast to previous years.

65. Since the adoption of the Programme of Action for the Least Developed Countries for the 1990s, the overall prospects of growth and development of the LDCs had deteriorated alarmingly. Per capita income for the LDCs as a group had continued to decline since 1990, owing in part to disappointing international efforts to meet ODA targets and to provide sufficient external debt relief. Indeed, aid targets and levels needed to be revised upwards in as much as the estimated external financing needs for the 47 LDCs had been estimated to be some 18 per cent higher than for the 41 countries in the group when the Programme of Actions had been adopted. Similarly, current debt relief schemes covered only part of LDCs' debt. In any case, the needs of the countries in transition should not be met at the expense of the developing countries.

66. He stated that the LDCs' group was in favour of examining ways and means of encouraging a better flow of capital and technology towards the LDCs during the comprehensive mid-term review carried out by the UNCTAD Intergovernmental Group on the Least Developed Countries due to take place in the third quarter of 1995. The LDCs' group endorsed the agreed conclusions and recommendations contained in the report of the meeting of Governmental Experts of Land-Locked and Transit Developing Countries and of Representatives of Donor Countries and Financial and Development Institutions held in New York in May 1993, and called for concrete action to address the problems of land-locked least developed countries.

67. Recalling the LDCs' position on the Draft Final Act of the Uruguay Round of December 1991, which failed to reflect the group's concerns in a consistent and fair manner, he expressed the hope that participants in the Uruguay Round would honour the Punta del Este political commitment in respect of the LDCs.

68. He also expressed the LDCs' concern at the implications of regional economic integration for particular countries and products. Under this heading he singled out the possibility that the movement of third country labour might be affected by the Single European Market, that the incorporation of EFTA to the EC system could lead to a deterioration in the terms of market access for countries currently the most important GSP suppliers to EFTA, and that NAFTA might create trade diversions for some LDCs. Accordingly, it might be necessary for UNCTAD to examine the implications of such losses of preferential market access for the LDCs and to develop proposals for possible compensatory arrangements.

69. Concerning the specification of health, safety and environmental standards applying to the whole EC, he stated that the LDCs' group was against the use of measures of environmental protection as non-tariff barriers to trade. Owing to lack of adequate financing, LDCs would find it difficult to mobilize resources to finance the investment required for sustainable development or to absorb the cost of compliance with higher standards. In this context, the Global Environment Facility needed to be strengthened.

70. Citing the experience of his own country as an example, he pointed to the frustration of undertaking reforms for sustained economic growth and long-term development without having the adequate and timely support of development partners in the form of concessional resources, reductions in the debt burden, enhanced trading opportunities, humanitarian and emergency assistance, and the transfer of technology.

71. The representative of **Austria** said that, at a time of widespread uneasiness about the global economic outlook, the Trade and Development Report rightly pointed out that both boldness and realism were necessary. They needed to be based on cool analysis in order to avoid inappropriate reactions such as blind activism. The Report's review of the many facets of the global economic picture was commendable. He noted the impressive growth in East and South-East Asia and, more recently, in Latin America, where in a number of countries the picture had changed radically. In Eastern and Central Europe, there were signs that the downturn was beginning to bottom out and in a few countries there were even signs of recovery.

72. Regarding the pre-conditions for sustainable development, the main concern of Governments should be to create an environment that favoured economic growth and human development. He stressed the importance of national reforms. External conditions should not be underestimated, and the successful conclusion of the Uruguay Round was of particular importance. He pointed out that development aid, another aspect of external support, had not produced the desired results and that a new approach was needed. The quality of such aid had given rise to growing concern, and there was a consensus that aid had not paid sufficient attention to the needs of the population. Much still remained to be done in this sphere.

73. The representative of **Romania** noted that, as shown in the Trade and Development Report, the world economy was in a slow growth phase and that the prospects for a rapid and strong recovery were not very encouraging. Most developing countries and the countries in transition were faced with serious economic difficulties. He recognized that each country had the primary responsibility for its own development, but the growth in interdependence in recent years had brought about new challenges of a global nature. This being so, international cooperation for development was an absolute necessity. To strengthen such cooperation sustained efforts were necessary to put into practice the Cartagena Commitment to a new partnership for development, through constructive dialogue, cooperation and solidarity, and strengthened national and international policies to promote social and economic progress in all countries.

74. He stated that, as Romania moved towards becoming a market economy, its economy had been liberalized and deregulated, and privatization was under way. However, the transition in Romania had had a high social cost. It would take time for the reforms to bear fruit. The inherent difficulties of reform had been exacerbated by the unfavourable external environment of recent years. Among the measures which his country was pursuing to accelerate transition and to stop economic decline were improvements in the use of resources, steps to combat inflation, the encouragement of local and foreign investment, and efforts to increase competitiveness. However, to overcome its difficulties and reduce the costs of transition, his country needed external assistance, in particular increased access to markets for Romanian products and services, adequate external financing, and the facilitation of foreign investment and technology transfer to Romania. He expressed his country's gratitude for the assistance already granted by a number of countries (such as Japan, the United States, and member countries of EEC and of EFTA) as well as by international organizations. He also expressed his country's gratitude for the technical assistance provided by UNCTAD.

75. The representative of **Sweden**, speaking on behalf of Nordic countries **Denmark, Finland, Norway and Sweden**, said that Governments in the industrialized countries faced a policy dilemma between the need to combat unemployment and the need to bring government deficits and debt under control. The Nordic countries were actively trying to cope with these problems in parallel.

76. Some of the formerly centrally-planned economies which had started reform at an early stage offered examples of how difficulties in the process of transition could be overcome. The extraordinary performance of a number of developing countries in South and South-East Asia raised the hope that this region would become a growth pole for the world economy. In most Latin American countries, debt problems were now under control and policy reforms had led to massive capital inflows. However, growth had been generally driven by consumption rather than investment. Assuring the sustainability of capital inflows was a major policy challenge. The outlook for sub-Saharan Africa was worrying. Recovery had been very slow, commodity prices were falling and the population was still growing faster than output.

77. Increasing prominence was now given to market oriented policies and the private sector in developing-country reforms. Sound and coherent domestic policy was not enough to produce a sustainable economic development. In order for the reforms to be successful in the developing countries and countries in transition, improved growth opportunities in the form of better access to markets must be increased. It was thus of the utmost importance that the Uruguay Round be brought to an early and successful conclusion.

78. In conclusion, he argued that the recession should not weaken support for the developing countries, whose needs for financial assistance, foreign investment and transfer of technology were greater than ever. The Nordic countries were determined to continue their efforts in this respect. Intensified efforts should be made by all countries to reach the 0.7 per cent ODA target as soon as possible, as well as the 0.15 per cent target for ODA to the least developed countries. ODA should be directed increasingly towards the poorest countries.

79. The representative of **Switzerland** congratulated the secretariat on the quality of the TDR and expressed appreciation for the penetrating analysis and the originality of its approach. He also welcomed the call for pragmatism made during the discussion of the panel of experts on interdependence. Pragmatism was the guiding principle of Swiss authorities. He detected elements of Keynesianism in parts of the TDR which to his mind were old-fashioned. However, he welcomed the Report's general trend in favour of more open world trade. Switzerland was at one with the Report in attaching the utmost importance to the rapid conclusion of the Uruguay Round, which could give the necessary thrust to the recovery of the world economy. He drew attention to the sluggishness of the world economy, particularly to the longer-than-expected recession in developed countries. The economic situation of sub-Saharan Africa was a source of special concern for the international community. However, the dynamic growth of the East and South-East Asian and Latin American regions gave cause for optimism. Emphasizing the importance of interdependence, he stated that current uncertainties in the world economy could increase protectionism. This would be extremely dangerous for the participation of developing countries in world trade.

80. He regretted that the TDR might appear to be praising an interventionist philosophy, and singling out the failures of liberal economic policy. The Report neglected the interaction in a democracy between the Government and the governed. An interventionist policy could encourage action in response to group pressures resulting in protection by the Government of obsolete structures and of enterprises producing unwanted goods. His country was convinced that the first duty of the State in the economic field was to create favourable conditions for progress rather than planning it. He recognized that his country had not always managed to resist the temptation to intervene, but the success stories in Switzerland were sectors where the Government had refused any form of intervention, such as the textile and watch-making sectors.

81. He disagreed with the proposal for a capital levy put forward in the Report. The proposal neglected long-term effects, and there was no guarantee Governments would resort only once to such measure. Implementation of the proposal could lead to capital flight. Government borrowing was not the responsibility of the private sector, which thus should not be asked to pay for the consequences of such borrowing. Finally, a capital levy might shake people's trust in their Government.

82. The representative of **Poland** agreed with the statement made in the Trade and Development Report that it would be extremely difficult to get out of the current recession without concerted international action and policy coordination by developed countries. He disagreed, however, with some of the conclusions concerning the situation of the countries of Eastern Europe. He noted the preference shown in the Report for the strategies followed by the countries of East and South-East Asia over those of East European countries. But one should not promote the Asian model as the only valid development strategy. Each strategy had to take into account the specificity of the country concerned and its social situation.

83. He felt that the report confused "shock therapy" with the economic reform programmes embarked on by East European countries in the early 1990s. The only such country undergoing a true "shock therapy" was the former German Democratic Republic. While he recognized that the radical programme launched in Poland in early 1990 contained some elements of "shock therapy", he stressed that some parts of the Polish economy were also undergoing a slow and perhaps too slow transformation. He referred in this regard to privatization and the establishment of market-based financial institutions. Part of the fall in East European output was due to the elimination of economically inefficient production. But in spite of output declines, households were now better equipped with consumer goods than four years ago. Nevertheless, his country had to face serious economic and social problems, such as unemployment, fiscal deficits and balance-of-payments difficulties. Some mistakes had been made at the beginning of the economic reform programme, such as an overvaluation of the Polish currency at the time of the introduction of convertibility.

84. The representative of **Canada** said that incurring higher burdens of government debt to provide a short-term economic stimulus would increase interest rates and reduce business and consumer confidence. The proposal in the Trade and Development Report of a one-time capital levy was logically inconsistent: it would amount to reducing debt with one hand, while increasing it with the other. Such a tax would also be distortionary and inequitable. Net borrowers would benefit at the expense of net lenders. The proposal could be expected to lead to capital flight, an exchange rate crisis, and a rise in interest rates, and would thus do major damage to any economy that ventured to levy such a tax. A reduction of short-term interest rates could prove to be inflationary and hence lead to higher long-term rates. Moreover, in contrast to what was claimed in the Report, trade liberalization aiming at a worldwide expansion of demand and higher standards of living was a positive-sum game.

85. He found the call made in the Report for much greater government involvement in the process of transition in the former socialist countries of Eastern Europe disquieting. While Governments should do whatever possible to promote the transition to a market economy and put in place legal and financial systems as well as other institutional infrastructures, excessively activist public policies could be counter-productive. Experience in some Eastern European countries clearly indicated that rapid reform is often necessary to ensure a successful transition.

86. Trade liberalization in developing countries would encourage economic growth through integration with the world economy. Reductions in trade barriers would reduce input costs, improving competitiveness in the long term. Finally, a successful conclusion of the Uruguay Round would reinforce a rule-based world trading system, in which developing countries would enjoy improved access to developed-country markets.

87. The representative of **Japan** said that linkages between sectors and among economies had grown considerably with the accelerated globalization and growth of interdependence in the world economy. These phenomena had made multilateral cooperation essential. Developed countries should endeavour to attain sustainable non-inflationary growth and further improve access to their markets so as to create a favourable global economic environment - a prerequisite for the economic development of developing countries. Developing countries for their part should make self-help efforts to promote market-oriented economic reform - with financial and technical assistance from developed countries - in order to participate fully in the dynamic evolution of the world economy and its expanding technological base.

88. He recalled his Government had announced at the Tokyo Summit in July 1993 various development assistance initiatives, including the Fifth Medium-Term Target for ODA of $70-75 billion and non-ODA untied funds of $50 billion over the next five years. Among the recent measures taken by the Japanese Government to stimulate its economy, following the measures taken in 1992, were two economic packages amounting to 13 trillion Yen and 6 trillion Yen. The Bank of Japan had also announced recently a 0.75 per cent reduction of its discount rate, down to a record low of 1.75 per cent. The expansion of domestic demand resulting from these packages would contribute to increasing imports into the Japanese market.

89. Referring to the recent good performance of some developing countries, particularly in Asia and Latin America, he observed that they must undoubtedly be the result of the adjustment programmes carried out by their governments. UNCTAD could play an important role in enabling them to exchange their experiences.

90. The representative of **Argentina** said that, in considering this agenda item, the Board should focus on elements that had become sources of uncertainty and pessimism. Although the Trade and Development Report forecast a world higher growth rate in 1993 than for 1992, the discrepancy between the forecast for developed countries of 1.4 per cent and that for developing countries of 4.6 per cent should be highlighted since it showed how responsibility for strengthening world growth should be distributed.

Developing countries had experienced a considerable deterioration in their terms of trade. However, high growth rates in parts of Latin America and Asia were associated with a high level of imports from developed countries, so that the former countries were now playing the role of an engine of growth for the world economy.

91. Criticizing the protectionist attitude of the OECD economies, he noted that the high level of subsidization of agricultural producers in developed countries had resulted in a surplus of basic products. Even though there had been a general reduction in the level of tariff barriers, those remaining continued to discriminate against developing countries. Zero tariffs had been proposed only for products for which developed countries have a competitive advantage, and not for such products as tropical agricultural goods and textiles, for which zero tariffs would lead to an increase of 80 per cent in developing countries' exports. Non-tariff barriers had also discriminated against exports from developing countries. Developing countries that were undergoing structural reforms needed transparent and predictable markets in order to be able to compete on the basis of efficiency rather than subsidies.

92. The principal actors of the world economy should therefore respect multilateral norms. He emphasised the need to explore new mechanisms for dialogue among groups of countries and to strengthen cooperation between United Nations organizations and the Bretton Woods institutions in order to ensure that the economic interests of developing countries were taken into consideration. UNCTAD, under the mandate given in paragraph 52 of the Cartagena Commitment, was the appropriate forum for the elaboration of a mechanism to prevent trade conflicts between developed and developing countries.

93. The representative of **China** noted that, with the exception of some countries in Asia and in Latin America, the world economy in 1992 remained largely in recession. After the lost decade of the 1980s, the development prospects for developing countries remained clouded, faced as they were with an unfavourable external environment, weak commodity markets, a lingering debt crisis, and restricted access to international capital markets. In addition, the economic malaise of developed countries had led to increasing trade protectionism and greater regional economic integration. The outcome of the Uruguay Round remained in doubt.

94. Now that the world no longer lived under the threat of world war and the spectre of the cold war, governments should take advantage of this historic opportunity to make coordinated efforts for joint development. While primarily responsible for their own development, developing countries also needed the support of the international community. He expressed the hope that developed countries would take the development needs of developing countries into consideration when formulating their policies, and that they would strive for greater policy coordination among themselves so as to reduce trade and other economic frictions.

95. Referring to his own country, he said that China had continued its good performance in 1992, with GNP growing by 12.8 per cent compared with the previous year. Aware that the economy was currently becoming overheated,

the Chinese Government had formulated macro-economic regulations and controls intended to maintain an overall balance between supply and demand. He pointed out that although China had great potential for development and had in fact been developing rapidly, it remained a low-income country, and the estimate - based on the "purchasing power parity" method (used by some international financial institutions) - that China was the third largest economy in the world was an overstatement.

96. The representative of **Angola** said that, with the ending of the cold war, a new trend had become apparent in the former Eastern bloc countries and the developing countries: democracy was now the watchword in politics, while the current economic vogue was for recovery through structural adjustment programmes. Yet today, as in the past, one could observe a relentless and systematic deterioration in the socio-economic situation of the developing countries, especially the sub-Saharan African countries. His own poor country, wracked by civil war, was a pitiful and shocking example.

97. In his view, the term "interdependence" - the key word of this agenda item - did not quite capture the idea of a rational and mutual dependence between the North and the South in that the development of the South was a direct function of the will of the North. Indeed, the developing countries were compelled to gear the exploitation of their natural resources to the level of demand in the industrialized countries, and the meagre foreign currency receipts derived from exports were immediately used up in the acquisition of a few consumer goods. This situation often had harmful effects in the ecological, social and demographic spheres.

98. Regarding the role to be played by UNCTAD in the achievement of real interdependence among nations, he wondered what new strategy should now be adopted for the industrialized countries in order to brighten this gloomy outlook and to offer the developing countries at least a glimpse of economic stability. The problem must be tackled in all seriousness if a sustainable world economic balance were to be achieved.

99. Finally, referring to the situation in his own country, he said that the international community had a major role to play in imposing a lasting peace in Angola, where currently a thousand people were dying every day because of the war and extreme poverty. He therefore launched an urgent appeal for humanitarian support, both material and moral, so that Angola could at long last - after more than 17 years of warfare - exploit its considerable economic potential.

100. The representative of the **Czech Republic** said that the interest of his delegation in the Trade and Development Report, 1993 was primarily in chapter V dealing with "Collapse and transition in Central and Eastern Europe". He noted that the Report placed all countries in the region on an equal footing and cast doubt on the transformation process in the different countries. However, the method and speed of the transformation still commanded wide support in his country owing to positive tendencies such as the achievement of price liberalization without an excessive rise in inflation. In some areas the Report did not present economic indicators in the appropriate context. The Report stated, for example, that inflation

had begun to accelerate with the separation of the former Czechoslovakia into two States in January 1993, whereas the main reason for rising inflation was the change in the tax structure. The Czech Republic had opened its economy to the world within a short period of time, and its tariff system had been restructured. As a result its trade policy was now one of the most predictable in Central and Eastern Europe. While the Report stated that greater openness had revealed the weak competitiveness of the country's industry, several sectors had nevertheless been able to adjust to the requirements of the world market even though they were confronted with rising protectionism. Substantial progress had been made in the area of privatization, both of small and large enterprises, and the results were promising. The Czech Republic was ready to open its economy to traders and investors, including those from developing countries, as evidenced by the recent contacts with such countries by high government officials.

101. The representative of the **Former Yugoslav Republic of Macedonia** said that the transition of his country to an open market economy had encountered serious difficulties resulting from external factors, with GNP declining by 15 per cent per year since 1991. As a small land-locked country of 2.2 million inhabitants, it had experienced a loss of markets in Eastern Europe and, more significantly, in those of the successor States of the former Yugoslavia. During the 1980s, countries in Eastern Europe had accounted for 35 to 40 per cent of his country's exports. In 1987, 22 per cent of its consumption had been imported from the successor States of the former Yugoslavia, and exports to this country had amounted to 23 per cent of the country's GNP. It was estimated that the damage done to his country by the implementation of sanctions imposed by the United Nations Security Council against the Federal Republic of Yugoslavia (Serbia and Montenegro) would amount to $1.8 billion in 1993. To achieve sustainable development, his country would continue to undertake market-oriented reforms and improve cooperation with other economies, but it would also need the support of the international community regarding the availability of development finance as well as access to international financial markets.

102. The representative of the **Russian Federation**, commending the treatment in the Trade and Development Report, 1993 of the unprecedented transition from centrally planned to market economies, said that he shared the secretariat's concern at the difficulties involved. Reforms in the Russian Federation had started in January 1992 in very difficult conditions due to the collapse of the former USSR and the consequent disruption of links between enterprises. After the dismantling of the centralized administrative system, the immediate task of the Government was to establish effective control over the national economy with market regulatory measures. Work discipline in the public sector had deteriorated and the Government had been subject to pressures from various interest groups. The implementation of political and economic reforms had been considerably hampered by acute tensions between the executive and legislative branches. Suppressed inflation had come into the open and was approaching a socially intolerable level. The living standards of the population had fallen.

103. In response to this situation, the Government had adopted a reform and stabilization programme for 1993-1995, where control over inflation and financial stabilization, creation of conditions conducive to investment, reinvigoration of production, promotion of business activities, and continuation of mass privatization were the main priorities. Realization of this programme might put a stop to economic decline in 1994. The budget deficit was expected to be in the range of 8-10 per cent of GNP and inflation to be 5-7 per cent monthly. Price regulation would be reduced to a bare minimum.

104. He stressed the importance for the Russian Federation of the analysis in the Report of methods of structural and institutional change. The main task was the structural transformation required if old and unprofitable enterprises were to give way to more dynamic new ones. Russian foreign trade had contracted sharply owing to these very same factors of systemic change and political disintegration. However, as from the beginning of 1993 Russian exports had begun to recover and the balance of payments had shown a surplus. The latter partly reflected the restructuring of Russian external debt. In these circumstances, the country was aiming to improve its position in world markets by expanding its exports of manufactures and by seeking an accommodating trade regime at both the bilateral and the multilateral levels.

105. The representative of **Hungary** said that, as a result of generalization and oversimplification, there were a number of misinterpretations and factual errors in the Trade and Development Report, 1993 concerning his country. The general statement that in transition economies trade barriers had had to be raised again, tariffs had been increased and new quotas imposed in a number of countries was not applicable to Hungary. Contrary to what was stated in the Report, foreign investors were welcome in Hungary and were offered favourable conditions. Indeed, Hungary had been the recipient of more than half of the foreign direct investment flows to Central and Eastern Europe. Its new privatization scheme was aimed at easing the problem of insufficient domestic private finance. The Hungarian compensation certificate differed significantly from the privatization vouchers used in other countries.

106. Severe reserve requirements had been introduced in Hungary primarily to protect depositors and not to absorb excess bank liquidity. Moreover, since 1986, balance sheets of banks and enterprises had been restructured on the basis of Generally Accepted Accounting Principles. Some statements in the Report on price liberalization also had limited relevance for Hungary. Similarly, in contrast to what was stated in the Report, subsidization of enterprises had been significantly reduced.

107. In conclusion, he said that significant political changes had taken place in the countries of Central and Eastern Europe. In parallel with this, a painful economic transformation process had started. This process could not be completed overnight. However, the initial situation, economic problems and policies, and current performance varied widely among the countries of the region. Thus generalization and simplification should be avoided and the transformation process in Central and Eastern Europe should be evaluated and described country by country.

108. The representative of **Brazil** observed that divergent economic policies among the industrialized countries had created profitable opportunities for market arbitrage and had stimulated speculative capital flows. Today, international financial flows had a much greater value than the exchange of goods and services, and followed a logic of their own. At the same time, the instability of exchange rates had caused mounting pressures in the industrialized countries for increased protectionism. But such an approach was simplistic since the international financial transactions should be distinguished from flows of goods and services. For developing countries there was a growing risk that their efforts towards structural adjustment and liberalization would be adversely affected by the resulting uncertainties and instability of the international economy.

109. He considered that coordination of macro-economic policies among industrialized countries was the only alternative capable of stabilizing the international economy. The role of international forums, such as UNCTAD should be strengthened and the regulatory system should be improved in such a way as to enable it to handle new international financial relationships, including the role of the non-financial private sector as a source of investment.

110. With regard to the promotion of development, he said that national actions in developing countries should be conducted with a view to achieving commercial liberalization and macro-economic balance, while the rest of the international community should implement measures based on coherent, symmetric values and goals. UNCTAD should foster reflection and action contributing to the convergence of national and international decisions for the promotion of development, in order to facilitate the participation of developing countries in the formulation of growth strategies for the international economy. This would lead to greater equity in international relations. Moreover, the strengthening of the role of developing countries would have an immediate and positive impact on the world economy through its effect on global export demand.

111. The representative of the **United Republic of Tanzania** said that most of the least developed countries had undertaken structural adjustment programmes under IMF and World Bank surveillance. A wide and diverse range of domestic reforms had also been undertaken by them as required by the Programme of Action for the least developed countries for the 1990s. But the international support measures to complement their efforts had been very disappointing, and overall economic performance had been unsatisfactory. Total output for the least developed countries had been declining since 1991, and a further decline was expected for 1993. There had been lack of progress in meeting ODA targets and no real progress in alleviating the external debt burden of the least developed countries. Moreover, trading opportunities had not been improved. He pointed to the danger of the continuing marginalization of least developed countries.

112. The international community should not consider that the least developed countries deserved solidarity on the sole basis of moral considerations. Many LDCs could offer commercial opportunities. In his country, a new economic approach attributed a central role to the private sector, and the Government

had enacted legislation to promote local and foreign investment and to liberalize the services sector, great emphasis being placed on improvement of communication and transport infrastructure. He called on members of the Trade and Development Board to publicize the attractions available in the United Republic of Tanzania to break the vicious circle of poverty. The Tanzanians needed help but, more importantly, they needed partnership in developing their potential for mutual benefit. Concerning regional integration, he argued that it was of vital significance, particularly to the weaker trading partners.

113. The representative of **Peru** stated that the recommendations put forward in the Trade and Development Report regarding expansionist policies in industrialized countries were supported by developing countries, and should be supported by developed countries as well. Unfortunately, the latter were following policies on reducing fiscal deficits and on trade that were detrimental to developing countries. The issue of the levy on financial assets of the private sector needed to be looked at in more detail since this fiscal measure would require intergovernmental coordination owing to the risk that capital would move to countries that did not have this tax. Regarding the need to reduce the official debt of all affected countries, she supported multi-year debt restructurings by the Paris Club, so that debtor countries had a longer time span for economic planning and could save the costs which resulted from annual negotiations.

114. Latin American economies were currently applying the rules of the market to a greater extent than were the industrialized countries. However, the high interest rates which were attracting foreign capital to Latin America were also making its economies dependent upon such capital, whereas the region should be promoting domestic savings and increasing investment to prevent an eventual external payments crisis and an outflow of capital. Peru saw the need for further analysis of the role of foreign direct investment, which in most developing countries was more important than speculative capital inflows. Such an analysis was particularly pertinent to the Peruvian case, since in 1992 the Lima stock market had the second highest growth rate in the world after Jamaica, and the level of transactions had been increasing continuously.

115. The representative of **Belgium**, speaking on behalf of the **European Community and its member States**, said that the content of the Trade and Development Report, 1993 was very much in line with the new approach adopted for UNCTAD in Cartagena. The performance of the world economy was clearly not satisfactory. Although the most dynamic performers were the developing countries, high growth rates in Asia were in contrast with the disquieting stagnation of per capita incomes in Africa, and growth in the countries of Central and Eastern Europe continued to be negative. The level of unemployment in the European Community required a reassessment of measures to revive growth. The Community was envisaging measures, both at the Community and the country level, to strengthen infrastructure investment within the budget constraints. Restrictive monetary policies had helped to keep inflation at an acceptable level and to reduce interest rates, and Governments were taking measures to reduce budget deficits. In the medium term, the public debt situation would improve as long-term interest rates in most EEC countries had fallen and recovery was beginning. He felt that the preoccupations of the Report with respect to the Maastricht convergence

criteria were exaggerated. Moreover, a one-time capital levy would have disastrous consequences for the public bond prices and long-term interest rates.

116. The divergent performances in the major country groups indicated a significant cyclical dissynchronization. The continued expansion of world trade pointed to growing interdependence and the contribution that developing countries could make as both a source of exports and as increasingly open import markets. The continuing fall in commodity prices and excessive dependence of some countries on tropical beverages had led to a deterioration in the financial situation of several low-income countries. However, there were now signs that commodity prices might begin to rise again. Recovery in the industrialized countries would support this tendency, but increased diversification in commodity-dependent economies remains crucial.

117. In the design of structural adjustment programmes, especially in Africa, more weight should be given to public investment, to reform of taxation, administration and public enterprises, and to export promotion. The reduction of macro-economic disequilibria and trade liberalization in Latin America had served to create an economic environment that would continue to attract financial flows in the future. For the performance of Asia, regional integration had been important but a role had also been played by exports from the region to Western Europe and to the large market of the United States. The divergences in the performance of developing countries were significantly related to good governance, a democratic environment and a climate conducive to foreign investment.

118. He noted that net resource flows to developing countries had grown substantially in 1992 in response to favourable economic and policy developments. But only a few countries had benefited from the increase in private flows, while there had been little change in the access to private external finance for most of the poorest countries. The EEC contributed nearly 50 per cent of the ODA provided by the DAC-member countries in 1992; the burden of ODA should be more equally distributed among current and potential donors. The debt problem was largely under control except in the case of highly indebted low-income countries, especially in sub-Saharan Africa. A joint effort by creditors was necessary to make concessionality available at the Paris Club, on a case-by-case basis, to certain middle-income countries. But the question of sub-Saharan Africa needed to be addressed in a wider context than the debt problem.

119. The representative of **Ukraine** said that the main features of, and reasons for, economic stagnation in Ukraine corresponded to the analysis and conclusions in the Trade and Development Report relating to transition in Central and Eastern Europe. The deterioration of Ukraine's external economic relations in the aftermath of the collapse of the USSR was one of the main reasons for its stagnation. Thus an accelerated integration of Ukraine into the world economic system was necessary. This process would involve the development of bilateral economic relations, attraction of foreign direct investment, and participation in international economic organizations and regional groups.

120. The current share of exports in Ukrainian output was only 1 per cent, and these exports consisted mainly of raw materials and semi-processed goods. Free trade with all countries was an important condition for the integration of Ukraine into the world economy. However, the problems of the transition period made it necessary for the country to use, on a temporary basis, non-tariff discriminatory measures such as licences and quotas for some exports and special taxation of barter trade. He expressed the hope that the development of direct economic links with the countries of the Commonwealth of Independent States, including the creation of a free trade zone or economic zone, would make an important contribution to Ukraine's foreign trade, on conditions which would include equality, mutual benefit and independence in the formulation of trade policy. Not less important was the county's participation in regional economic groupings of Central and Eastern Europe, its integration into the Organization of Black Sea Economic Cooperation and the Danube River Basin, and moves towards the creation of a European economic zone. He listed the main sectors in Ukraine which had a capacity to absorb foreign capital, together with the approximate needs of each for such capital.

121. The representative of the **International Monetary Fund**, in a statement relating to item 2 and item 3, drew attention to the fact that the recovery in the industrialized countries had been more modest and fragile than foreseen. While unemployment remained intolerably high, inflation appeared to be under control. The latter had reduced inflation expectations, allowing long-term interest rates to fall and the large gaps between short- and long-term rates to narrow. Growth in the developing countries was projected to continue to outpace that in industrialized countries, owing largely to the performance of middle-income countries in Asia and the Western Hemisphere, an outcome to which both their continued implementation of adjustment policies and their consequent enhanced credibility had contributed. Considerable progress in stabilization, liberalization and institutional reforms had been made in several countries in transition, where declines in output were bottoming out. While there had also been progress in dealing with external debt, the problem remained acute in many of the poorest countries, especially in Africa.

122. The need to strengthen international cooperation in the trade and macro-economic areas was generally recognized, as was the need to conclude the Uruguay Round this year. The cooperative growth strategy adopted by the Fund's Interim Committee called for further fiscal consolidation and lower government deficits in a number of industrialized countries, which would lead to higher savings and investment. She disagreed with the recovery strategy proposed in the Trade and Development Report, 1993, especially the coordinated increase in industrial countries' public expenditures to be accompanied by a one-time levy on private-sector holdings of financial assets, concluding that both elements of this strategy would be counter-productive.

123. The monumental task confronting the economies in transition required renewed determination by Governments to establish the credibility of their adjustment strategies. Developing countries that had opened up their markets and established such policy credibility had performed better than those where reforms had not been undertaken or had not yet been completed. The IMF disagreed with the recommendation in the Report for targeted government intervention and slower phasing of reforms: the best basis for growth would

be domestic structures that were sufficiently flexible to respond to market signals within a stable macro-economic framework. The adjustment efforts of developing countries required adequate international finance on appropriate terms and a supportive external environment. These countries had already benefited from lower inflation and interest rates in industrial countries, and would benefit further as recovery gathered strength. But no single factor could improve economic prospects more than a successful conclusion of the Uruguay Round. Large-scale capital inflows had complicated monetary management in reforming countries, particularly Latin America. However, they signalled a return of confidence. Among potential corrective measures, capital controls were a step backwards in the process of liberalization and integration and could provide only short-term relief.

124. A successful growth strategy depended mainly on the efforts of the country itself, but adequate external assistance and a supportive external environment were crucial elements as well. Greater debt and debt service reductions, especially for the poorest developing countries, could provide important and, in some cases, essential support for their reforms. The call for multilateral financial institutions to reschedule or forgive their loans was not appropriate, as the debt was already on highly concessional terms in many cases and represented support of the international community in all. It would constrain, rather than enhance, the ability of these institutions to respond appropriately to a member country's needs.

125. The representative of the **International Confederation of Free Trade Unions** (ICFTU) said that reducing unemployment from its record level depended on higher growth worldwide. Misery and poverty in the developing countries and rapidly spreading unemployment in the industrialized ones were part of the same equation. The decline in output and purchasing power of the developing countries had a catastrophic effect on the living standards of workers in the industrialized ones.

126. Some OECD Governments had attacked the role of trade unions in society, with the aim of tilting the balance of power in favour of employers and the business community. But an unrestrained free-market approach to economic policy had caused redundancies of labour, pay cuts and reduced investment in many countries. In his view the Group of Seven programme for higher global economic growth could not work since it was based on excessively optimistic assumptions. There was a need for increased public expenditure, a coordinated reduction in interest rates, and a large issue of SDRs. Moreover, the debt of the developing countries should be rescheduled or written off and aid to developing countries increased, so as to meet the ODA target of 0.7 per cent of GNP. At the same time, developing countries should be able to achieve their development through trade and not only through aid. The Uruguay Round should therefore be concluded soon and it should include a social clause. Development had often been severely retarded by repression in the labour market. Finally, he observed that the policies of the multilateral financial institutions had not delivered the results expected. For example, two out of three IMF programmes had broken down before completion.

127. Commenting on points made in the debate on agenda item 2, the **Chief of the International Monetary Issues Branch, Global Interdependence Division** shared the view that the debate had been notable for the substantive focus of the contributions made by many delegations from all regions and that the thrust of the debate had been consonant with the Cartagena Commitment. He expressed the secretariat's thanks for the numerous compliments that had once again been paid to the quality of the Trade and Development Report. This year an exceptional effort had been put into producing the Report, and it was most gratifying to see that this had not gone unnoticed by members of the Board. The secretariat was also pleased to see that the Report had, on the whole, received close reading by delegations: the Cartagena Commitment had evidently influenced not only the writing, but also the reading of the Report. The secretariat had taken due note of the comments and criticisms made and would reflect on them carefully.

128. At this stage, he wished to clarify two sets of comments made on the TDR, one relating to the treatment of the former socialist countries of Central and Eastern Europe and the other concerning the secretariat's proposal for a tax on financial assets. Some delegations had felt that the secretariat had generalized too much regarding the different countries in Central and Eastern Europe. He believed that this impression had been derived from reading the relevant section in the Overview, which was more selective in its coverage than the chapter of the Report dealing with transition. The Overview concentrated on the wisdom of shock therapy: it did not say, nor did it mean to imply, that all the countries of Central and Eastern Europe had applied shock therapy. Chapter V of Part II of the TDR clearly differentiated between countries and pointed out, for instance, that countries that had begun their reforms before the political transformation had on the whole fared better than those that had not. It also pointed to important differences in approaches to privatization and price liberalization.

129. Regarding the secretariat proposal for a one-time capital levy, he noted that the representative of Canada had stated that it was inconsistent to call for both stimulative fiscal policies, which would be deficit-increasing, and privatization plus a tax on wealth, which would be deficit-reducing. The inconsistency was more apparent than real. A fiscal policy geared to stabilizing aggregate demand would indeed increase the deficit in the very short term. Over the business cycle as a whole, however, such a policy would be neutral, for during the upturn government revenues would rise and expenditures on unemployment benefits would fall. The rationale of accompanying a fiscal stimulus now with taxes on wealth to reduce debt lay in the widespread perception that, outside Japan, existing levels of government debt in industrialized countries were too high to permit Governments to undertake the discretionary fiscal action needed to overcome recession. The wealth tax proposal was designed to give Governments more room for manoeuvre both now and in the future, not simply to make up for the short-term deficit that would result from adopting an expansionary fiscal stance to overcome this particular recession. Consequently, the precise arithmetic relationship between the revenue gain from privatization plus wealth tax, on the one hand, and the short-term deficit increase, on the other, was not *per se* important.

130. It had also been argued that a wealth tax would be distortionary. The same was surely true for any tax. It had also been pointed out that this particular tax would benefit net lenders at the expense of, for example, the elderly. But that would be equally true of a fall in real long-term interest rates, something which all would welcome. As for the risk of capital flight in response to the imposition of a one-time wealth tax, there would be no such risk if the levy were imposed on holdings of assets on a prior date.

Action by the Board

131. The action taken by the Board on agenda item 2 is reported in TD/B/40(1)/14 (Vol. I), section I.A.

Chapter II

DEBT ISSUES IN A DEVELOPMENT CONTEXT, INCLUDING THE RECENT EVOLUTION OF DEBT RESCHEDULING

(Agenda item 3)

132. For its consideration of this item, the Board had before it the following documentation:

Trade and Development Report, 1993 (UNCTAD/TDR/13).

Consideration in Sessional Committee II

133. In his introductory statement, the **Chief of the Development Finance Programme, Global Interdependence Division**, highlighted the salient features of the analysis made in Part III of the Trade and Development Report, 1993.

134. The spokesman for the **African Group** (Nigeria) said that many developing countries, especially in Africa, were experiencing a severe socio-economic crisis characterized by a heavy external debt burden, deteriorating terms of trade, high (and sometimes very high) inflation and drastic falls in the standard of living. Structural adjustment programmes had necessitated tremendous sacrifices and resulted in political tension in many countries. For Africa, the past 10 years had been a lost decade for development. The sustained growth in the industrialized countries during this period had not served as an engine of growth for the region due to the debt problem and the other features of the socio-economic crisis just mentioned, as well as protectionism, a decline in foreign direct investment and negative transfer of resources.

135. The focus in development assistance should be shifted towards basic needs, human development and infrastructure. Structural adjustment programmes had not yet yielded their full benefits owing to the unfavourable external environment. Under their present debt burden, African countries could not achieve self-sustained growth. The debt problem required concerted efforts by the Bretton Woods institutions and the international community. The Brady Plan, the Toronto options, the Trinidad terms, and other initiatives were helping but did not provide an adequate solution. There was a need for a concerted international debt management strategy within the framework of growth and development which must aim at reducing both the debt stock and the burden of debt service. Excessive reliance on debt rescheduling through market mechanisms only served to perpetuate the problem of external imbalance and caused the debt stock to rise further. He requested that all official debt of low-income and least developed countries be cancelled, and that substantial financial resources be made available to sub-Saharan Africa.

136. The representative of **Mexico** stressed that over-indebtedness was a result both of excessively expansionist economic policies in debtor countries and of an international financial system which was too permissive and ruled by irrational norms. It was of the utmost importance to resolve the debt problem, since it could cause a vicious spiral of instability leading to high

interest rates which would in turn hamper growth and instigate instability. Moreover, the net flow of capital from developing countries to international financial institutions, which was one of the consequences of the debt problem, should be reversed. Reorganization of multilateral debt would be a step in the right direction. Moreover, an inflow of financial resources to highly indebted countries was necessary for the restoration of their financial viability and the consolidation of the economic reforms which they had undertaken. In measures to tackle the debt situation, it was important to bear in mind that responsibility should be shared between debtors and creditors and that the issue was closely related to others such as the net transfer of resources, trade, poverty and environmental degradation.

137. Brady deals could have two advantages, as in the case of Mexico: a direct one in the form of a reduction in debt service, and an indirect one in the form of the encouragement of national and foreign investors. The latter category of benefits, which led to a reduction in international interest rates, an increase in capital formation, and repatriation of flight capital, had a greater cumulative effect than the former. He concluded by stressing that efforts to deal with the debt of the Central and Eastern European countries should not be detrimental to efforts to overcome the over-indebtedness of developing countries.

138. The representative of **Brazil** said that most of the problems relating to external debt had not yet been overcome. Progress had been made mainly in restructuring debt to private banks. There had also been a growing degree of concessionality in the renegotiations of official debt within the Paris Club, but debt service difficulties continued in more than 60 countries, many of them least developed countries. Since the beginning of the 1990s, Brazil had opted for the treatment of external debt on a country-by-country basis in the Paris Club, as well as in the committee of creditor private banks. Its foreign debt negotiations were well advanced: within the Paris Club it had negotiated 11 bilateral agreements, and in its negotiations with private banks the term sheet had been approved by both parties and a final agreement was near.

139. However, the external debt problem had to be seen in the wider context of foreign financing of development. In the 1950s, foreign direct investment, especially by multinational companies, had accounted for the bulk of financial transfers; in the 1960s, official credits had played a very significant role; from the mid-1970s, private bank credit had increased sharply until the 1982 debt crisis; and subsequently net transfers had become negative. Currently, the non-financial private sector had become the main agent for financing development. While the increase of investment flows was frequently attributed to liberalization in developing countries, it was also a result of the present situation in the industrialized countries, characterized by low interest rates and modest growth. The volatility of these flows limited the potential of direct investment as a means of financing development, and the private sector was capable of making only a limited contribution to the financing of infrastructure, housing, health and education. Since the present economic situation in industrialized countries was not conducive to an urgently needed increase in ODA, wider scope should be given to multilateral financial

institutions. These could play a more aggressive role in raising resources from private financial markets and making them available for infrastructure projects in developing countries.

140. The representative of **Norway**, speaking on behalf of the **Nordic countries**, agreed with the conclusion in the Trade and Development Report that there was still unfinished business regarding debt, especially that of low-income countries (particularly in sub-Saharan Africa).

141. As regards African debt, the standard procedure of short-leash rescheduling had left the debt overhang intact. As documented in the Report, the average contractual debt service of low-income Africa was a staggering 80 per cent of annual export income, and it was clear that official development assistance could never fill the financing gap between debt obligations and payments capacity. Thus, the Nordic countries welcomed the recent recognition by several Paris Club creditors that a number of the severely indebted low-income countries needed debt relief going well beyond 50 per cent. Provided these countries were committed to, and had an adequate track record of, economic reform and structural adjustment, the Nordic countries were willing to grant them reductions of up to 80 per cent of their stock of debt.

142. The Nordic countries welcomed the fact that the Paris Club, following the introduction of the enhanced Toronto terms at the end of 1991, had now put the stock-of-debt approach firmly on its agenda. However, the Nordic countries believed that, in appropriate cases, action should be taken promptly and that there should not be a further delay of three years. Existing mechanisms, such as the recently replenished IDA Debt Reduction Facility (sixth dimension), must be fully utilized. In IMF, a new Enhanced Structural Adjustment Facility (ESAF II) should be agreed upon before the end of 1993, and the IMF's Rights Accumulation Programme (RAP) for the clearance of arrears needed to be followed up and perhaps refined.

143. As pointed out in the Report, the relative share of multilateral debt in total debt was increasing. Direct multilateral debt relief was subject to well-known constraints. However, the World Bank's fifth dimension, which subsidized 90-100 per cent of the interest due to the Bank from IDA-only countries, offered effective multilateral debt relief, and the Nordic countries once again urged other donor countries to contribute to the fifth dimension. The possibility of setting up a similar scheme in the African Development Bank deserved consideration. However, there was a trade-off in that, if more was accomplished with regard to reducing bilateral and commercial debt for low-income countries, there would be less need for concern regarding their multilateral debt.

144. The representative of **Algeria** said that the Trade and Development Report, 1993 was in agreement with her country's view that the debt crisis was far from over. The Trade and Development Board should continue to review the debt problem.

145. Algeria had scrupulously fulfilled its debt-servicing obligations, devoting to them more than 70 per cent of its export revenues. The current Algerian situation involved a liquidity crisis. Access to credits was central to economic recovery and was indispensable for financing current economic reforms, as well as systemic transition. However, her country's policy of servicing debt, far from strengthening its creditworthiness, had had the opposite effect. This pointed to the problem of the responsibility of multilateral financial institutions towards lower-middle-income countries, such as Algeria, which had continued to service their debts. No measure of relief had been taken to reward their efforts. The Report's treatment of this problem was inadequate.

146. She agreed with the Report on the need to improve the debt strategy. Her country had noted the proposals made concerning the Paris Club and the rescheduling of the official bilateral debt of the Russian Federation. The flexibility demonstrated by the Paris Club in this case should be applied without discrimination.

147. The representative of **Japan** said that recent active borrowing from the international financial markets by East Asian and Latin American countries, as well as the widespread decline in the debt service ratio, pointed to a gradual but steady alleviation of the external debt situation. Yet the debt problem remained a crucial issue for the international community and would feature prominently in the Tokyo International Conference on African Development. The Japanese Government hoped that this Conference would make a major contribution to creating a consensus on the priorities for African development.

148. Regarding the bolder action on debt relief and reduction advocated in the Trade and Development Report, he pointed out that debt reduction might discourage the inflows of new money needed by developing countries, and it would demoralize developing countries which were performing well and faithfully meeting their debt service obligations. It was indispensable for the effects of the enhanced Toronto terms to be examined before consideration of a new approach. The recent announcement by the Japanese Government of the next Medium-Term Target for overseas assistance for the period 1993-1997 was a manifestation of its determined support for self-help efforts of debtor and other developing countries. The Target included grant aid and technical assistance, and efforts would also be made to increase the grant portion. Particular attention would be paid to increasing grant assistance to least developed countries. Japan had provided US$ 500 million as non-project grant aid to support structural adjustment efforts from fiscal year 1987 to fiscal year 1989, meeting the initial target announced in 1987. Under a second phase of three years starting in fiscal year 1990, US$ 600 million had been allocated under this heading. The Government had decided to implement a third phase with grant assistance of US$ 650-700 million over the three-year period starting in fiscal year 1993. Japan was one of the few countries that had provided new money in the form of official long-term lending in support of the Brady Initiative.

149. The spokesman for the **Asian Group** (Indonesia) expressed agreement with the Trade and Development Report that the debt problem, which was not the outcome of unilateral action, was not over, so that collective measures at

the international level were needed and the developed countries should be especially understanding. Reiterating the gist of the Non-Aligned Movement memorandum to the Tokyo Summit, he said that, regarding bilateral debt, residual Paris Club debt should be converted to equity investment or to local currency, the eligibility criteria for severely indebted low-income countries should be loosened, more generous debt and debt service reduction was required for severely indebted middle-income countries, and there should be a once-and-for-all approach to the reduction of debt burden, on the basis of extended terms and applied in a single operation. On commercial debt, he said that, for the 50 severely indebted developing countries, a less costly approach (which maintained the essentials of the Brady plan) should be devised to achieve debt and debt-service reduction, the creditor Governments should induce banks to participate in debt relief through tax drawbacks or exemptions, and international agencies including UNCTAD should provide better coordinated and more cost-effective technical assistance to enhance the administrative and negotiating skills of indebted countries. Concerning multilateral debt, consideration should be given to the use of SDRs as a means of reducing it, part of the debt might be converted into equity investment, concessional resources for regional development banks should be expanded to cope with the burden of debt, and the profits and reserves of multilateral financial institutions might be used for debt and debt-service reduction.

150. The representative of **China** said that, since the emergence of the debt crisis in 1982, the world had witnessed its serious adverse effects not only on the economic development of developing debtor countries but also on the global economy and financial system. Efforts on the part of debtor and creditor countries and of both commercial banks and international financial institutions had led to some degree of success in solving the debt problem. However, as pointed out in the Trade and Development Report, the debt crisis might have ended for some countries, but it had not for others, and the total volume of debt was still increasing.

151. China had consistently stated that the fundamental solution to the global problem of debt lay in reinvigorating economic development in developing debtor countries. However, the development prospects for developing countries were at present constrained by an unfavourable international economic environment consisting of recession in developed countries, declining international prices in primary commodities, and increasing trade protectionism. While responsible for their own development, developing countries generally (especially the debtor countries among them) needed the support of developed countries and the international community to reverse the unfavourable trends in the external environment, as well as to explore new approaches to increase the flow of capital to developing countries, especially that of official capital on concessional terms. Already there was a consensus among all countries regarding an early removal of the debt overhang. What was needed now was action or, as one would say in China, to "start forging while the iron is still hot".

152. The representative of **Canada**, commenting on various proposals of the Trade and Development Report, said it was not clear that all low-income countries needed a minimum debt reduction on "Trinidad terms", assumed to

be a two-thirds reduction. At the Tokyo Summit, the Group of Seven had discussed a proposal to increase the level of concessionality under "enhanced Toronto terms" from the existing 50 per cent to as much as 80 per cent on a case-by-case basis. Canada had already indicated that it could accept this proposal to calibrate debt relief according to debtors' needs. The Group of Seven had also agreed to support an early implementation of a reduction in the stock of official bilateral debt of low-income countries which had honoured the terms of their Paris Club rescheduling agreements and which had demonstrated ability to implement IMF adjustment programmes.

153. Similarly, it was not clear that all IDA recipients required concessional rescheduling terms. As a matter of fact, the 1991 Munich Summit of the Group of Seven had endorsed the application of concessional rescheduling terms for some lower-middle-income African countries, and the Paris Club would be discussing in more detail the implementation of concessional rescheduling terms for certain lower-middle-income countries at a meeting in October 1993. Canada also believed that for administrative or technical reasons it would be highly impractical to combine Paris Club rescheduling with donor group meetings. In any event, the Governments that participated in Paris Club rescheduling usually participated also in World Bank Consultative Group meetings, so that consistency was maintained in addressing the debt and development problems of a given country.

154. He concluded by stating that Canada would not support the rescheduling (much less the cancellation) of obligations to multilateral financial institutions for various reasons, including the need to protect the credit ratings of the World Bank and the Inter-American Development Bank, as well as to ensure that the revolving nature of IMF resources was maintained.

155. The representative of the **United States**, referring to debt problems that still existed in many of the poorest countries, said that debt relief alone would not be a solution. A comprehensive and coordinated approach to implementing sustainable economic reform, together with efforts to alleviate debt to sustainable levels, was the only path to growth and economic recovery.

156. Her country did not agree with many of the recommendations put forward in the Trade and Development Report. Regarding the recommendation that the Paris Club increase the scale of debt reduction, she insisted that this position was best taken up within the Paris Club itself on a case-by-case basis. She could not support the recommendation to shift the responsibility for debt rescheduling from the Paris Club to donor groups. The latter would not be the most competent forum for confronting the complexities of debt, and this shift would not benefit debtor countries, since there would be a blurring of functions and responsibilities.

157. Her country supported a successor to the Enhanced Structural Adjustment Facility in IMF, the continuation of the Rights Accumulation Programme, the replenishment of the IDA Debt Reduction Facility, and the continued use of the fifth dimension of the World Bank to provide some interest-rate support on the non-concessional loans of IDA-only countries. However, she strongly opposed the suggestion of a rescheduling or reduction of debt owed to multilateral

financial institutions, since such actions would jeopardize the credit rating of these institutions, which would in turn damage the contribution they could make to the development process.

158. Regarding the international debt strategy on commercial debt, she pointed out that dramatic progress had been made under the Brady plan. It had provided external financial support as countries implemented sustainable reform. Investor confidence had been boosted, and many of the major debtors now had renewed access to international capital markets. In response to the recommendation for the need for Brady packages to offer greater debt reduction, it was the market-based approach of the plan that had induced the participation of the banks.

159. Concerning Russian debt, she emphasized the achievement represented by the rescheduling of $15 billion of obligations and noted that a new initiative could be expected when the current rescheduling period expired.

160. The representative of the **United Republic of Tanzania** drew attention to the burden of external debt on his country's economy. He endorsed the recommendations on debt in the Trade and Development Report and thanked countries which had cancelled debt owed to them by his country.

161. The representative of **Belgium**, speaking on behalf of the **European Community and its member States**, said that, in spite of an unfavourable external environment, the debt situation of a number of the most heavily indebted countries had continued to improve. The strengthened debt strategy adopted in the second half of the 1980s was working, notably owing to the sustained efforts made by debtor countries, as well as by creditor Governments and banks. He recognized, however, that the situation was still very difficult for many debtors, particularly in Africa.

162. He agreed with the overall analysis of the debt situation made in the Trade and Development Report, 1993. The three basic debt indicators had progressively fallen back to their levels of 1986-1987, and even to the pre-1982 levels for the major Latin American debtors. These trends reflected, on the one hand, improved economic performance and increased exports and, on the other hand, a change in the nature of financial flows to developing countries. Here he drew special attention to the increasing role of portfolio and direct investment. He noted, however, that there were significant differences among regions. In particular the turnaround in the access to private financial resources, whether direct or portfolio investment, had been concentrated in a limited number of countries in Latin America and East Asia. Other regions, in particular sub-Saharan Africa, remained highly dependent upon official finance, and in a number of low-income countries of that region debt indicators remained unbearably high. For some heavily indebted countries, existing schemes of debt reduction would not be enough, and further mechanisms for debt reduction would be necessary.

163. The case-by-case approach remained a central feature of the debt strategy. Good domestic management was also primordial. He drew attention to significant improvements in the international debt strategy, in particular in Paris Club practices. He expressed agreement with some but not all of the

recommendations in the Report. Moreover, he reaffirmed the view of the EC and its member States that the definition of international financial policies was the prerogative of institutions such as those of Bretton Woods and the Paris Club.

164. Debt reduction and the case-by-case approach had been key elements in results achieved under the Brady plan, as well as in the reconciliation of debtors' and creditors' interests. The EC felt that heavily indebted low and lower-middle income countries, which had not benefited from the Brady plan, should receive more support from creditor countries for the repurchase and conversion of their debt. This could be done either through the IDA facility or through contributions by donors. Referring to the "moral suasion" mentioned in the Report, he pointed out that this was already used by a number of Governments, though not too much should be expected from it. He also stressed the voluntary nature of private creditors' policies under the Brady plan. He expressed serious reservations concerning the suggestion put forward in the Report to transfer Paris Club reschedulings to other forums such as the Consultative Groups of the World Bank and the UNDP Round Tables.

165. The proposal put forward in 1990 in Trinidad by the Chancellor of the Exchequer of the United Kingdom would result in higher debt reduction for low-income countries than that under existing schemes. The EC hoped that the members of the Paris Club would agree to ensuring the continuation of adequate flexibility and higher concessionality for the poorest countries in future Paris Club negotiations. He then referred to the recommendations of the Tokyo Summit to the effect that the Paris Club should consider the matter of the stock of debt sooner than previously anticipated. The EC hoped that this second phase of the Enhanced Toronto Terms would enable creditor countries to grant reduction of the stock of debt on a case-by-case basis. He welcomed the initiatives taken by a number of creditor countries in terms of converting bilateral debt into development funds in local currency.

166. He noted the burden that multilateral debt represented for a number of low-income countries. It would be interesting to conduct further research on the impact of the arrears of the multilateral financial institutions. Significant progress had been made in addressing this problem through the Rights Accumulation Programme of the IMF and the fifth dimension of the World Bank, but it was absolutely necessary not to impair the financial viability of the multilateral financial institutions. Caution was necessary, and the debate should take place within the institutions themselves.

167. The representative of **Switzerland** said his Government shared the view that the debt crisis was not over for the severely indebted low-income countries, especially in sub-Saharan Africa. The international debt strategy had so far focused on the middle-income countries, and it was time to assess future directions for the strategy. Failure to reduce the debt burden might seriously compromise countries' adjustment efforts and prospects, as it already undermined growth in these countries by constraining import possibilities.

168. As for current ways of financing development, a sizeable share of concessional finance had been used to bail out official creditors. More far-reaching debt reduction,. rather than this sort of cross-financing among creditors, would be a more efficient way to help close the financing gaps. Specifically, with regard to ODA debt, his Government considered that such debt should be cancelled on a stock basis of 100 per cent without conversion of the debt into local currency. There was in many cases no good justification for maintaining these claims on the books, as conditions had changed radically since the credits were initially advanced. As for bank debt, his Government supported the IDA Debt Reduction Facility. It also welcomed the selective furthering of the "vertical" approach which sought to alleviate the burden of Paris Club debt by focusing on stock reduction and increasing the conversion volume (above the existing 10 per cent). He informed the Committee that his country was actually cancelling debt stock on a 100 per cent basis, focusing especially on severely indebted low-income countries; with regard to the conversion of debt into local currency, conversion rates should be moderate, taking into account the macroeconomic situation of the debtor countries. But analysis of the potential effect of a "horizontal" approach to Paris Club debt, linking debt service to export growth, would also be worthwhile. With regard to multilateral debt, it was essential to maintain the credit ratings of the multilateral financial institutions. The Rights Accumulation Programme introduced by the IMF and followed by the World Bank, as well as the fifth dimension, were measures with the potential to cushion the effects of indebtedness to these institutions. Regional development banks might explore the possibilities of similar measures. He concluded by noting that, with the addition of debt reduction to its traditional ODA instruments, the experience which his country had so far accumulated in the field of debt reduction was most promising.

169. The representative of **Poland** indicated his country's support for the country-by-country or case-by-case approach to debt reduction, but expressed the hope that debt reduction agreements would also be comprehensive and tailored to the present and projected debt-servicing capacity of debtor countries, taking into consideration social constraints where possible. Inasmuch as a country's debt-servicing capacity was dependent to a large extent on the international economic environment, an early conclusion of the Uruguay Round could have a significant effect.

170. In the case of Poland, multilateral debt would also increase in importance in the coming years. The problem should be solved by the multilateral financial institutions themselves, but UNCTAD could contribute by discussing the relevant problems during sessions of the Trade and Development Board.

171. With respect to the debt of the Russian Federation mentioned in the Trade and Development Report, 1993, negotiations between Poland and the Russian Federation were under way on an agreement that would probably cancel all mutual claims. A critical problem, however, was the cut-off date for claims to be included in a "zero option" agreement.

172. Clarifying the Report's statement that Poland was a country with a "significant reduction of debt stock", he said that Poland's agreement with the Paris Club had provided for a reduction of 50 per cent in the net present value of its debt stock to be achieved by 2009. The reduction, however, was not automatic and was divided into two stages, the second stage of a reduction of 20 per cent in the debt stock being conditional upon the successful completion of the IMF-supported three-year adjustment programme. Negotiations with commercial bank creditors at the London Club for debt amounting to US$ 12.3 billion were yet to be concluded. In short, Poland's debt situation remained difficult and might become worse in the coming years. With respect to Poland's Ecofund, the projections given in the Report needed to be interpreted with caution, because the agreed formula for debt reduction included still unknown decisions which made such projections practically impossible.

173. The representative of **Cameroon** said that, with the end of the cold war, Africa seemed to have lost its strategic importance and, thus, the raison d'être for its much needed official development assistance. Sub-Saharan Africa in particular was being more and more marginalized. Africa's debt problem was becoming ever more acute and was compromising the region's development efforts. Paradoxically, the World Bank currently received debt service payments from Africa which were greater than its disbursements of new loans to the continent. Structural adjustment programmes had not succeeded in solving the debt problem and needed to be completely re-evaluated.

174. Developing countries were unable to sustain debt servicing at the present rate while the prices of their main export commodities continued to fall. Negotiations on price stabilization for commodities on which developing countries depended to earn foreign currency had to be accelerated, a process in which UNCTAD had a very active role to play. Alongside the writing-off and rescheduling of debts, new forms of international development finance should be developed.

175. He thanked the members of the Paris Club which had either written off or rescheduled Cameroon's debt and had helped the country in debt management training. In the latter area, UNCTAD and other institutions should intensify their technical assistance to developing countries.

176. The representative of **Belgium**, speaking on behalf of the **European Community and its member States**, referring to the Committee's informal consultations on its conclusions, said that the approach taken, whereby draft conclusions were based on statements made during the Committee's debate rather than on previously prepared material, was a fruitful one and should serve as a lesson for future work.

177. The representative of **Peru**, also referring to the Committee's informal consultations on its conclusions, said that the approach taken of identifying points of convergence and divergence was a step forward, even although on this occasion not many points of convergence had been identified. For the future, however, every effort should be made to develop an agreed format for the outcome of debates in UNCTAD bodies in order to avoid repetitive discussions about the form which such outcomes should take.

Action by the Sessional Committee

178. At its 7th meeting, on 28 September 1993, Sessional Committee II adopted its conclusions on agenda item 3 (TD/B/40(1)/SC.2/L.2).

Action by the Board

179. The action taken by the Board on agenda item 3 is reported in TD/B/40(1)/14 (Vol. I), section I.A.

Chapter III

UNCTAD'S CONTRIBUTION, WITHIN ITS MANDATE, TO SUSTAINABLE DEVELOPMENT: TRADE AND ENVIRONMENT

(Agenda item 4)

180. For its consideration of this item, the Board had before it the following documentation:

> "UNCTAD's contribution, within its mandate, to sustainable development: trade and environment - Report by the UNCTAD secretariat" (TD/B/40(1)/6).

Consideration in Sessional Committee I

181. In introducing this item, the **Director of the International Trade Division** recalled that the Rio Declaration and Agenda 21 had agreed that sustainable development policies in developing countries and countries in transition must be supported by open markets, financial assistance and technical cooperation: trade restrictions must be avoided. Trade liberalization, particularly in areas where developing countries enjoyed a comparative advantage, would help to reconcile the need for rapid export growth with the need to conserve their resource base. The main task of the international community was now to put the conclusions and recommendations of UNCED into practice. The process of consensus-building on basic principles and policy guidelines to achieve mutually supportive trade and environmental policies had begun. However, more empirical work was needed to explore the interlinkages and further develop policy conclusions. Much analytical work was still required to understand better the linkages between trade and environment. With this in mind, the secretariat had designed a broad programme and initiated a number of projects funded by extra-budgetary resources. Most of these projects had been discussed in earlier documents. A number of analytical studies were now available in draft form and would be issued in the near future. Country studies on trade and environment linkages, involving policy makers and research institutes in 10 developing countries, were now under way. Three country reports had been completed in draft form.

182. Under another project, funded by the International Development Research Centre (IDRC), preliminary studies had been undertaken on "eco-labelling and international trade". Two studies had been drafted by UNCTAD staff, one for submission to the subgroup on eco-labelling, Strategic Advisory Group on Environment of the International Organization for Standardization and the International Electrotechnical Commission, which met in Toronto in May 1993, and another for the OECD Informal Experts Workshop on Life Cycle Management and Trade, which was held in Paris in June 1993. Meetings had been held in Canada, jointly with Canadian research institutes, to discuss the progress in this field. Work within the secretariat had intensified, despite limited resources: a specific if small Trade and Environment Section had been established within the International Trade Division. Struggling against very confining resource constraints, UNCTAD had nevertheless been able to associate with a large group of international experts and research institutes, and maintain regular contacts. UNDP and UNCTAD were discussing the possibility of

jointly establishing a high-level group of experts to provide advice to both organizations on research and technical assistance activities in the field of "trade, environment and sustainable development".

183. UNCTAD's technical assistance activity was continuing, largely funded from extra-budgetary resources. Trade and environment components had been included in two regional projects, one for Asia and the Pacific, and one for Latin America and the Caribbean. Greater understanding of the linkages between trade and environment and the building of institutional capacities to deal with the interface of trade and environmental policies were among the objectives of these projects which were intended to enhance and strengthen the participation of these countries in their international deliberations on trade and environment. Some activities had sought to contribute to efforts aimed at maintaining and, if possible, increasing market shares, in light of environmental concerns in the major markets. The projects were also expected to promote a dialogue between trade, environmental and developmental communities at national and regional levels, through the extensive dissemination of results of policy-oriented research, workshops and seminars. The training course on "Trade and Environment", prepared in cooperation with the TRAINFORTRADE Programme, was in the final preparatory phase and the first delivery of the course was planned to take place in November 1993. The support from donors had been instrumental in carrying out this work and this was gratefully acknowledged. The cooperation and financial support of UNEP for a number of activities in the field of trade and environment was also very much appreciated.

184. The **Chairman of the Committee on Trade Development of the General Agreement on Tariffs and Trade** (Egypt) drew attention to the work launched by this Committee as a follow-up to the United Nations Conference on Environment and Development (UNCED). In particular, the Committee had the task of examining matters related to promoting sustainable development through trade liberalization. The Committee had agreed that a successful outcome to the Uruguay Round negotiations could make the most important contribution to UNCED's objectives. Trade liberalization and the establishment of an effective set of rules and disciplines would lead to a more efficient allocation of natural resources, and thereby cut waste and pollution. Reduced tariff and non-tariff barriers in international trade would encourage economic growth. This would, in turn, provide developing countries with more resources for raising national environmental standards. The Committee had found that a comprehensive examination of the concept of sustainable development would require analysis of the following issues: differences in consumption in developed and developing countries and their impact on the environment; development needs of developing countries; the link between poverty eradication and environmental goals; access to clean technology; the link between trade liberalization policies and sustainable development. Agreed principles to be kept in mind in any consideration of UNCED's Agenda 21, included: environmental problems without spill-over effects should be left to national authorities; environmental problems with spill-over effects should be resolved through international or regional cooperation and not through unilateral actions; in dealing with environmental issues, Governments should recognize the different mandates of various international institutions and the need to address individual concerns within the competent body. This would

ensure complementarity of efforts and avoid overlapping. It was anticipated that the following subjects would merit further discussion: improved market access for "environmentally friendly" products; identifying barriers to the transfer of environmentally sound technology; the importance of environmental services for developing countries; the impact of taxes and tariff escalation on commodity trade; ways in which developing countries could take advantage of new environmental policies. In closing, he raised the question of whether the existing GATT rules needed only to be reinterpreted or if they would have to be amended in order to accommodate new environmental concerns. Coordination among GATT, UNCTAD and the Commission on Sustainable Development would help reconcile trade and environment issues and thereby promote sustainable development.

185. The spokesman for the **Asian Group** (Indonesia) emphasized that environmental problems could not be viewed in isolation, but should be addressed in the context of development; environmental concerns and the imperatives of economic growth and development had to be integrated. International cooperation was indispensable, not only for adopting a concerted global strategy on the environment, but also to assist developing countries in implementing plans aimed at achieving sustainable development while fostering efforts to alleviate poverty. International cooperation on environmental protection should be based on the principle of the sovereign rights of States over their natural resources: countries had the right to develop their resources in accordance with their needs and level of socio-economic development. Trade should be the instrument of economic growth by which to increase resources available for environmental protection. Likewise, environmental protection should be aimed at preserving and developing the ecological resources needed to sustain a continuing expansion of trade. Trade measures based on environmental considerations should neither be misused as an excuse for interfering in the internal affairs of another country, nor used to impose any conditions upon development assistance or to introduce trade barriers against exports from developing countries. Although environmental problems could be national, regional or global in scope, those associated with the developed countries were a consequence of unsustainable patterns of production and consumption and wasteful lifestyles, whereas those of developing countries were, in general, the results of extreme poverty and underdevelopment. Bearing this distinction in mind, efforts to promote sustainable development should focus on multilateral cooperation so as to ensure that protection of the environment, economic growth and development were mutually reinforcing goals. Restrictive trade practices, and tariff and non-tariff barriers, posed serious obstacles to sustainable development because they, in turn, weakened efforts and capabilities to cope with environmental degradation.

186. If the current session of the Board could give consideration to the need to assess how far trade policies could be effective in achieving environmental protection objectives, this would be desirable. Such a task could be pursued by evaluating empirical experiences in order to ascertain the circumstances under which trade measures could bear on the pursuit of environmental protection objectives. In this connection, whether a country had the right to impose product or process standards on goods imported from other countries still had to be justified. As country standards would differ, efforts would

need to be made to avert possible conflicts arising from pressures to offset the competitiveness effects of differences in environmental policies among countries. International cooperation must minimize any negative effects of environmental product regulations, particularly with respect to developing countries. To this end, consideration might be given to the further study of the trade effects of trade-related environmental mitigation measures, such as the internalization of environmental costs, gradual introduction of measures, exceptions, rebates and compensating subsidy schemes.

187. The representative of the **United States of America** commended the UNCTAD secretariat for its expert and objective appraisal of trade and environmental issues in the document which was before the Board, citing in particular its reference to the need to internalize environmental costs and the potential role of trade measures in the enforcement of environmental goals. Although the report was generally balanced, it had played down the long-term benefits of cost internalization for the least developed countries, while over-emphasizing the differences between developing and developed economies in terms of the effects of environmental measures on competitiveness. Sustainable development was a universal objective. The report rightly emphasized that trade could contribute to sustainable development when the appropriate macro-economic and environmental policies were in place but it had overlooked its importance as a guiding objective for national environmental policies. The discussion on process standards and regulations could have pointed out that strict process standards might have positive benefits for sustainable development in developing economies by avoiding the hidden costs of lax environmental practices. Developed countries had learned that environmental regulation had not only helped to protect the environment but had often reduced production costs as well. While, under the GATT Agreement on Technical Barriers to Trade, there was provision for other Contracting Parties to challenge standards and regulations if they constituted unnecessary obstacles to trade, scientific evidence was just one basis on which a country defending a measure might seek to show that its standard was not an unnecessary obstacle. Of course the non-discrimination principle must be observed unless the discrimination was part of the basis for the standard, for example, fundamental climatic factors. In closing she emphasized that the generally balanced tone of the report had laid a solid foundation for continued discussions on trade and environment issues in UNCTAD as it works to fulfil its mandate from the Rio Conference.

188. The representative of **Finland** speaking on behalf of the Nordic countries (Denmark, Norway, Sweden and Finland) emphasized that trade and environmental policies should and could be made mutually supportive. The Nordic countries viewed the role of UNCTAD as primarily a forum for policy-oriented dialogue in a non-contractual atmosphere. UNCTAD should be supportive in regard to efforts within GATT, strengthening mutual cooperation. In carrying out its work, UNCTAD should benefit from the results of other international organizations and thus avoid unnecessary overlapping, concentrating on the problems relevant to developing countries. In dealing with trade and environment from this standpoint, UNCTAD could make a complementary contribution to the work now under way in OECD. The country studies on trade and environment linkages were an excellent way to compile basic information; UNCTAD's efforts in this direction were unique. Between sessions of the

Board, intersessional activity was essential to keep up the momentum. This could include the convening of seminars and informal meetings to deal with specific topics. For instance, the results of the country studies merited in-depth discussion. The Board would also have to address how it was going to deal with the subject of trade and environment in the Mid-term Review in 1994, between UNCTAD's eighth and ninth Conferences.

189. The representative of Egypt said that the focus of the secretariat report should have been more pronounced on international cooperation in the field of trade and environment, reflecting the underlying philosophy. In reconciling trade with environmental measures, first the root causes of environmental degradation had to be tackled, as had been stressed in Agenda 21. Resorting to trade measures for environmental purposes would only treat the symptoms rather than the underlying causes. Arbitrary unilateral measures could constitute disguised restrictions on international trade, thus undermining the Multilateral Trading System and the trading opportunities of developing countries. Impeding their developmental process would deprive them of one major source with which to combat environmental degradation at home. Transfer of resources, open markets and clean technology were more effective ways to deal with the problem. Developed countries' commitments to deal with the root causes should not falter. Secondly, developing countries must participate in setting the policies, standards and regulations dealing with transborder environmental impacts, in view of possible detrimental effects on their trade and development. Addressing these issues through international cooperation based on consensus was the best way to avoid a "beggar-thy-neighbour policy" and achieve balance and adequacy in standards. The issue of product standards was more complex; many actions tended to adapt themselves to GATT rules and so were only discriminatory in practice but not in appearance and thus hard to challenge within GATT. When national regulations varied from country to country, how exporting countries could make use of the positive effects of large-scale production and allocate the incremental costs of differences in regulations was not clear. Developing countries were at a disadvantage with regard to internalization of environmental protection costs since their domestic consumers would bear at least part of this component. Lags in technique, experience and competitiveness compounded the problem. UNCTAD was competent to deal with safeguarding the interests of developing countries. In a multilateral framework international consensus could be forged on a set of agreed standards, regulations and guidelines with all countries active participants.

190. Thirdly, as the secretariat report stated, pressure had been building to use trade measures on environmental grounds, but the needs of developing countries must not be ignored. UNCTAD had an important role in ensuring that environmental concerns were taken into account in the Multilateral Trading System with the purpose of strengthening it while safeguarding the development dimensions. It remained to be seen whether UNCTAD could help to secure trade measures aimed at strengthening multilateral environment agreements while protecting the interests of developing countries. UNCTAD should ascertain that the needs of developing countries were fully reflected in any environmental guidelines to address transboundary issues; OECD guidelines could be adapted to serve the broader international community. Fourthly, there was the question of "equity". Economic and development inequalities

underlay the present environmental imbalances: excessive levels of consumption in some countries and extreme poverty in others perpetuated environmental degradation. Unfair measures, such as trade restrictions, would not halt environmental degradation but a more efficient, equitable world economy based on the new desired partnership for sustainable development might. In concluding, she said that the report should have been more aggressive in advancing pertinent issues. The compelling need for developing countries to take an active part in setting production standards and regulations should have been stressed. Balanced development, taking into account the concerns and requirements of developing countries, was essential. Trade and environmental policies that were mutually supportive could promote a more efficient and equitable world economy.

191. The representative of **Chile** observed that environmental requirements had become factors regulating access to the markets of developed countries. For the industries of developing countries, the introduction of sustainable production processes would increase productivity and competitiveness of their exports but it required a great effort of adaptation, as well as a better understanding of the relationship between the environment, international trade and the process of transfer of clean technologies. The role of UNCTAD in this connection should be stressed. The UNCTAD Database on Trade Control Measures would help promote transparency in this area. The Ad Hoc Working Group on Interrelationship between Investment and Technology Transfer had made important efforts to promote sustainable production processes. Seminars on environmental policy issues and trade would be essential and additional funds were needed for such purposes. UNCTAD could analyse national environment policies which might affect access to industrialized markets and identify products affected. There was a greater need for transparency and information on environmental measures. The important work of UNCTAD in the field of trade and environment should be supported and Chile would also prepare a national study on this subject. In this regard, UNCTAD's technical assistance was especially important.

192. The representative of **Brazil** stressed the importance of international cooperation in tackling both global and local environmental problems, meaning that to carry forward the momentum of the Rio Conference, additional resources and technology transfer would be needed. Trade restrictions should not be substituted for tackling the problems. The exports of developing countries should not be affected by measures taken to protect the environment of the importing country. Lack of access to technology, import regulations, the absence of international standards and lack of information could be addressed in UNCTAD. The Cartagena Commitment had framed important basic agreements and principles on trade, environment and development. Those principles, incorporated into Agenda 21, should be refined and developed by the UNCTAD secretariat. The principles were clear on the point that international cooperation was the way to resolve environmental problems. UNCTAD could play a useful role in exploring the scope for increasing the positive effects of trade on environment and development, and vice versa, the positive effects of environmental measures and environmental awareness on trade. Coordination between UNCTAD and GATT on these issues was important. Brazil, in the GATT forum, had called attention to the potentially positive aspects of the interaction of trade and environment and made suggestions as to where

coordination between UNCTAD and GATT could be profitable. It had also proposed establishing environmental inquiry points to provide information on opportunities for trade of developing countries arising from environmental legislation. In the same forum, Brazil had stressed the need to consider such problems as internal taxation of tropical products and tariff escalation. Brazil had also called for further investigation of the possible benefits for developing countries from promotion of trade in "environmentally friendly" products. A broadening of the scope of a new international timber trade agreement would be welcomed. ITTA/1983 had paved the way as a commodity agreement under the auspices of UNCTAD to incorporate the principles of sustainable production. The timber market, both for tropical and temperate timber, could profit from the establishment of a common forum for addressing sustainable development of all timber producing forests, thus averting any discriminatory or lopsided approach. The UNCTAD secretariat was to be commended for its work in the area of trade and environment, especially its research into the use of eco-labelling and packaging. The report had been very useful in elucidating some of the inherent difficulties which such practices could pose for exports from developing countries.

193. The representative of **Canada** congratulated the UNCTAD secretariat on its objective, well-written and comprehensive report. The secretariat's efforts in circulating it well before the session were especially appreciated. The mandate given to UNCTAD by the Rio Conference had emphasized the significant role of UNCTAD in meeting the challenge of making trade and environment mutually supportive. However, care must be taken not to go beyond UNCTAD's mandate; its efforts should be coordinated with GATT and OECD. By highlighting where environmental policies had been successfully implemented without conflict in international trade and where they could have trade distorting, protectionist or even counter-productive effects, the secretariat report had been very useful. Further work should keep a focus on such elements. Another worthwhile area to pursue would be the use and implications of trade sanctions. It was instructive to note that at a recent meeting on the Montreal Protocol (30 August 1993), it had been recommended as not feasible at this time to restrict trade in products produced with, but not containing, banned substances, essentially for technical and practical reasons. Future work of UNCTAD could concentrate on: a study of the possible migration of "dirty" industries; the issue of recycling requirements and their effect on packaging materials; the impact of environment-related regulations and standards on developing countries' export competitiveness; consideration of the special needs of developing countries in the context of trade and the environment; collection, analysis and dissemination of information on environmental regulations and measures which may have an impact on developing countries' trade; and a comparative analysis of countries' experiences with environmentally sustainable trade expansion and diversification.

194. The representative of **Belgium**, on behalf of the **European Community and its member States**, observed that trade, environment and development were clearly related, since development strategies which did not take environment into account were unlikely to succeed. The debate on trade and development had started almost 30 years ago in UNCTAD. Over 20 years ago the interlinkages between trade and environment were already being debated at the Stockholm Conference. That same year - 1972 - GATT had created the Group on

Trade and Environment which started functioning somewhat later. The more recent Rio Conference and the establishment of the Commission on Sustainable Development stand as evidence of the international interest in the issues under discussion. At both UNCTAD VIII and the Rio Conference, UNCTAD had been given a broad mandate to work on trade and environment. The report prepared by the secretariat was the first substantial element in launching the current effort and the comprehensive perspective in which it placed the issues was especially appreciated. UNCTAD had an important role to play in this field but it would be necessary to be selective in defining the tasks and avoid duplication of efforts.

195. The representative of the **European Economic Community** said that UNCTAD had been given an important role in the context of trade and environment at UNCTAD VIII and UNCED. The secretariat document showed mastery of the subject and rightly underlined that trade liberalization would generate new financial resources to be devoted to finance environmental policies, but trade liberalization would contribute to sustainable development only if appropriate environmental policies were implemented at the same time. Empirical evidence was needed in order to avoid speculative conclusions; a few years ago it was commonly believed that new environmental requirements would lead to lower levels of production and employment. On the contrary, existing evidence had indicated that new environmental policies could lead to new market opportunities. As for trade measures for environmental purposes (Section V), the report would have been incomplete if these issues had not been treated but they should not become a priority issue in UNCTAD. Conversely, the approach to international cooperation on international standards (part VI) was also to be commended. UNCTAD had a key role to play in ensuring that developing countries were not kept out of the international debate.

196. The representative of **Switzerland** commended the secretariat for its excellent work on trade and environment as evidenced by the rational, timely and even-handed report which was before the Trade and Development Board. As many other organizations such as GATT and OECD were also studying this subject, it was essential to delineate the areas where UNCTAD had a comparative advantage. UNCTAD could help in resolving such issues as harmonization or the question of pollution havens. It could explore an analytical basis for production and process methods (PPMs) as an instrument prior to discussions in other forums. It could develop its Trade Control Measures Database, carry out country studies on the impact of environmental regulations on developing countries, and examine the linkages between trade, commodities, debt and the environment. Finally it could look at the design of domestic environmental policies, particularly those of developing countries, and their role in multilateral agreements. It should be recognized, however, that only a dynamic international economic system would provide resources for sustainable development. In the spirit of Cartagena and in the spirit of Rio, it was necessary to support UNCTAD in its vital role as a leading analytical force and forum for discussions.

197. The representative of **Bangladesh** emphasized the need for consensus in dealing with linkages between trade and environment. The internalization of environmental costs was a complex matter and would not happen automatically. International cooperation on a concerted global strategy on the environment

would assist developing countries in implementing plans aimed at sustainable development. The UNCTAD secretariat's efforts with respect to consensus-building were appreciated. The ability of developing countries to internalize environmental costs would be largely influenced by the conditions under which they were able to export their products. To support sound environmental policies in developing countries, international cooperation was needed in order to remove trade distortions, improve commodity prices and the terms of trade of developing countries, reduce indebtedness and increase financial assistance. The secretariat paper had rightly observed that newly enacted packaging laws could impinge on the use of certain kinds of packaging materials from developing countries, such as that of jute or cloth, not because they were environmentally less friendly than others, but simply because importing countries might not have the facilities to recycle them. The requirement that packaging be taken back for reuse or recycling could raise administrative and procedural problems for foreign manufacturers and increase their costs. Eco-labelling programmes could likewise have an impact on international trade. To the extent that developing countries had to incur high costs to upgrade their products to a high threshold level, their competitiveness could be impaired unless they obtained a significant price advantage or a higher market share for products qualifying for the label. All interested countries must be afforded an opportunity to participate in negotiations on such issues. In this way, the risk that a few countries would decide on environmental objectives and make access to their markets dependent on compliance with the standards could be averted. Such cooperation would no doubt generate economic and environmental benefits and an overall improvement in social welfare.

198. The representative of **Austria** referred to the importance of the areas identified in TD/B/40(1)/6 where international cooperation should be strengthened; these had been summarized in section VII. There were several further areas which could usefully be explored in greater detail in future work. It was important to consider the justification of environmentally related trade measures in the light of a given environmental objective and to examine its impact on public awareness and, consequently, on consumption and production patterns. Changes in consumption and production patterns possibly affecting, in turn, trade patterns could be specific and intentional. Legitimate policy objectives could also take into account important elements of Agenda 21. Future work in the area of the integration of trade and environmental policies should investigate the possible negative implications of certain trade patterns and policies on the environment.

199. The representative of **China** stated that a single-purpose drive for trade expansion to the neglect of environmental protection would lead to over-exploitation and depletion of natural resources and jeopardize sustainable development. The proper strategy would ensure coordinated development of trade and environmental protection. This called for the formulation of appropriate policies in the light of each country's circumstances. Developing countries were rightly apprehensive about over-stringent environment standards emanating from the developed countries in view of the risk that these standards might turn into new non-tariff barriers aimed at protecting national industries. China thereby called on the developed countries to take fully into account the developing countries'

present productive and technological capabilities when formulating standards and regulations on imported goods and duly to give these countries' goods preferential treatment so as to avoid any negative impact. While protection of the environment was a common task for all mankind, the developed countries might be called upon to shoulder a bigger portion of the responsibility and obligation in this regard. Sustainable development of the developing countries would need to receive adequate support from the international community and from the developed countries in particular. The latter could do this by opening up their markets, removing tariff and non-tariff barriers and providing financial and technical help.

200. China was fully aware of its responsibility and its significant role as a developing country in protecting the ecosystem. With this in mind, it had just completed a case study of trade and environmental protection problems in cooperation with UNCTAD. While, on the one hand, international conventions and international regulations for environmental protection had acted as a catalyst for technical advances, better product quality and innovation in some Chinese export enterprises, resulting in greater competitiveness, on the other hand, foreign regulations had cast temporarily a shadow over the development of China's foreign trade, especially regarding the survival of many export products. Low awareness at the enterprise level rendered difficult the coordination of foreign trade with environmental protection. Inadequate laws and outdated technology for environmental protection had meant extensive damage to the environment, as China sought to develop its foreign trade. In order to ensure stable development of its national economy, China would have to coordinate trade with environmental protection. The environmental awareness of foreign trade officials had to be enhanced; further institutional reforms had to be carried out for better management of natural resources; more adequate legal regulations were needed; technological development had to be increased.

201. The representative of **Japan** suggested that at the annual sessions of the Board, the participation of UNEP, GATT and OECD, along with the business community should become a rule, as UNCTAD had an important coordinating role to play in trade and environment issues. With regard to the need for more analytical work, the secretariat report which was before the Board should be considered as only a first step in the trade and environment debate. The future work of UNCTAD could address problems of internalizing environmental costs and international cooperation on eco-labelling and packaging, although it might be premature to decide at this juncture, in view of the complexity of the issues involved. It should, however, be emphasized that trade and environment were mutually compatible endeavours - conflicts between the two must not be exaggerated. The question of trade and environment could be quite actively addressed within UNCTAD.

202. The representative of **Romania** expressed appreciation for the consensus reached on the idea that seeking compatible trade and environmental policies were not inconsistent goals. UNCTAD VIII had treated the question of environmental measures representing disguised barriers to international trade and, to avoid such an occurrence, had adopted rules and principles to ensure that environmental measures were not used as means of discrimination in international trade. The environmental measures implemented by Romania were

in line with the rules and principles agreed on at UNCTAD VIII. However, some of the measures implemented in developed countries for environmental purposes might represent new trade barriers to developing countries and countries in transition; the countries so affected would greatly benefit from technical assistance to cope with this new challenge to meet the environmental requirements of their trade partners. UNCTAD could profitably continue its work in the field of trade and environment in accordance with the mandate given by UNCTAD VIII, and taking into account the work of GATT, OECD, and other international organizations concerned.

203. The representative of **India** recalled that UNCED had reached the conclusion that sustainable development required a dynamic international economy and an open equitable, non-discriminatory and predictable multilateral trading system. UNCTAD VIII, in paragraph 41 of the Cartagena Commitment, had stressed the need for coherence between policies of individual countries which, whenever possible, should be placed in the framework of international and regional agreements. UNCTAD could devote more time to this issue and to the question of how to identify the relevant environmental costs and resource values which were to be internalized. UNCTAD could also analyse the feasibility of different policy measures to achieve this. The secretariat report had mentioned that the developing countries were less successful in incorporating environmental costs and resource values into the price of their exports but it would be useful to find out why developed countries were more successful in this regard. A related subject was how to encourage environmentally safe natural commodities while discouraging the use of products harmful to the environment. The advantages of jute over plastics in packing material was a case in point. A study on this aspect would usefully carry the work forward. Of course there was apprehension that the introduction of product standards and regulations in the developed countries might reduce the acceptability of developing countries' exports. Product standards and regulations would have to be transparent and based on empirical and scientific studies taking into account a careful assessment of upstream and downstream environmental impacts, bearing in mind that some countries had greater physical assimilative capacities. The increasing demand for environmentally "friendlier" products could provide market opportunities for developing countries. Eco-labelling was a subject of interest and, as suggested in the UNCTAD secretariat report, eco-labelling programmes could be even more useful if designed in a cooperative manner. An UNCTAD study of the possible trade impact on developing countries' exports of environmental regulations in the major OECD countries was a welcome initiative. Similarly, exploring the potential impact of eco-labelling schemes as well as the expansion of UNCTAD's database on trade control measures to include environmental regulations would be a useful endeavour. Developing countries provided a large range of "environmental services" constituting an important contribution to the protection of the global environment, however, they were rendered without any recognition or benefit. As proposed in the secretariat's report, a study should be made on the valuation of these services and how the developing countries could be remunerated.

204. The representative of the **Slovak Republic** drew attention to the main economic reforms introduced in his country since 1990 during the transition to a market economy. This transformation process had taken into account the

integration of environmental and trade policy making. Quality standards, including environmental standards, had been harmonized with those of Western countries. The Slovak Republic was resisting any imports of second-hand technologies and did not intend to export such technologies to developing countries. It had taken an active part in the negotiation and implementation of environmental policies and agreements to enhance the effectiveness of environmental action without undue effects on trade. This principle was enshrined in relations with all trading partners. The Slovak Republic stood ready to support effective cooperation in the spheres of trade and environment and economic space.

205. The representative of **Mexico** said that, in developing countries, "unsustainability" and poverty were intricately linked. In order to solve environmental problems, the development process itself should be tackled first. Economic growth attained through trade, transfer of technology and greater financial resources were key elements in achieving sustainable development in developing countries. Sustainable development depended on a dynamic international economy and an equitable, non-discriminatory and predictable multilateral trading system which would support economic policies and environmental protection. The future growth of developing countries was a *sine qua non* requisite to attain protection of the environment. Certain measures and norms employed by some countries could have a negative influence on the exports of developing countries and detract from the latter's comparative advantages and hinder their growth possibilities. Trade measures were not an instrument for furthering the protection of the environment; they would only foster trade protectionism, which was detrimental to the basic principles of international trade and development. There was likewise a worrisome tendency in some countries to impose trade restrictions on the basis of unilateral criteria covering production processes and methods. The intention of some Governments to apply countervailing duties on imported products based on differential environment costs incurred in the production process was not only unjustified, but could inhibit both development and environmental protection efforts in developing countries. Environmental regulations would have to take into account the socio-economic situation of developing countries. The transfer of financial and technical resources was thus important. Eco-labelling was an instrument with the potential to be less distorting than trade restrictions *per se*, despite its possible effects on competitivity in view of its influence on consumer choice. For this reason, transparency in product selection should ensure that criteria for granting environmental labels were clear and developing countries' exporters interests recognized. Efforts towards harmonization of standards at the international level should be continued. Mutual recognition of norms could avoid conflict. For instance, the competitivity of developing countries would be negatively affected if forced to import costly packaging for their exports, to the neglect of environmentally friendly domestic materials such as jute and henequen. Thus proposed measures should be subjected to an environmental cost-benefit analysis and international consultations and cooperation launched. UNCTAD's work in identifying measures impinging on trade should be strengthened. Intensified international cooperation on environmental protection should rest on two fundamental principles: (a) environment problems within national frontiers and not affecting other countries should be

solved by national authorities; and (b) transboundary environmental problems or those having global effects should be solved through multilateral negotiations and consensus.

206. The representative of **Algeria** expressed appreciation for the contribution made by the invited experts at the informal session and for the high quality of the secretariat note which was before the Board. Attention needed to be given to the issues raised in the document such as environmental protection costs, standards and regulations, packaging requirements, eco-labelling, relocation of industries owing to differences in environmental regulations, and transborder environmental problems. Further analysis of their impact on the competitiveness of developing countries would be welcomed, especially regarding trade measures intended for environmental purposes (TD/B/40(1)/6, para. 83) as these could sometimes help solve environmental problems but at the same time be a source of friction in the international trading system. UNCTAD had an important role in helping to clarify the complex issues raised in Chapter IV, section G of the document. UNCTAD's mandate in conceptual work should be strengthened. The participation of developing countries was indispensable in standard-setting and the elaboration of principles to secure multilateral, open, non-discriminatory trade. As had been proposed by the representative of Finland, UNCTAD could serve as a forum for a useful exchange of views on the OECD guidelines on trade and environment policies. With regard to solving transborder environmental problems, paragraph 114 of the secretariat report had made particular reference to the need to encourage transfer of technology and capital in order to achieve environmental objectives. UNCTAD should undertake an in-depth analysis of the following issues: standards and regulations and their impact on competitiveness of developing countries; recycling of waste, including the transfer of relevant technology to developing countries under favourable and preferential conditions; possibilities for international cooperation in the field of eco-labelling; relocation of industries to developing countries and environmental impacts; human resource development in the field of trade and environment; the organization of informal meetings with experts on trade and environment.

207. The representative of **El Salvador** said that a prompt and successful conclusion of the Uruguay Round would probably give the greatest push to environmental protection. Improvements in the world economy, supporting economic growth and sustained development, would expand the resources available for environmental purposes. Improvements would be obtained through better access to international markets and a system of rules for a just and orderly international trade based on multilateral negotiations and agreements. El Salvador recognized each country's sovereign right to establish its own environmental norms and rules. These rules, if justified and applied in accordance with multilateral trade rules, should be accepted even in cases where they might affect the country's trade with third countries. Regarding problems with frontiers, whether global or regional, any measure with environmental aims which could have repercussions on trade ought to be negotiated and approved regionally or multilaterally and consensus sought. Environmental measures should not be used for protectionist purposes. Unilateral and extraterritorial measures violated GATT rules and the spirit of Agenda 21. While it might be difficult to design harmonized norms and

standards of products and production processes, whatever could be harmonized should be harmonized. If harmonization proved difficult, transparency mechanisms should be adopted. Any measure adopted by Governments or by industries which could have repercussions on international trade should be notified. For countries such as El Salvador, it was difficult to follow day-to-day developments on environmental legislation, especially those in developed countries, and particularly so voluntary programmes with trade implications adopted by industries. UNCTAD's Green Trade Programme would provide useful information but it could be effective only if constantly updated.

Action by the Sessional Committee

208. At its 6th plenary meeting, on 29 September 1993, Sessional Committee I adopted its conclusions on agenda item 4 (TD/B/40(1)/SC.1/L.2).

Action by the Board

209. The action taken by the Board on agenda item 4 is reported in TD/B/40(1)/14 (vol. I), section I.A.

Chapter IV

FOLLOW-UP TO THE RECOMMENDATIONS ADOPTED BY THE CONFERENCE AT ITS EIGHTH SESSION: EVOLUTION AND CONSEQUENCES OF ECONOMIC SPACES AND REGIONAL INTEGRATION PROCESSES

(Agenda item 5)

210. For its consideration of this item, the Board had before it the following documentation:

> "Follow-up to the recommendations adopted by the Conference at its eighth session: evolution and consequences of economic spaces and regional integration processes, Report by the UNCTAD secretariat" (TD/B/40(1)/7).

Consideration in the Sessional Committee

211. In introducing item 5, the **Director of the International Trade Division** stressed that the dynamism of regional integration and its rapid geographical extension around major trading nations, and intensification and spread to new policy areas, had inevitably exerted a major impact on world trade and economic relations. As the secretariat document (TD/B/40(1)/7) pointed out, there were a number of issues to be addressed in this connection: cohesion and the relationship between integration arrangements and emerging multilateral disciplines; the need to ensure that integration schemes were outward-oriented and supportive of multilateral trade; the need to evaluate the effects of integration processes on third countries, including investment, new sectors and new policy areas. He then underlined the document's main conclusions relating to: the impact of regional economic integration on trade and growth of third countries; compatibility of the major new disciplines in integration groupings with new disciplines being negotiated in the Uruguay Round; limited nature of GATT provisions for setting boundaries on groupings' actions which could be detrimental to the international trading system; need for a more comprehensive evaluation of implications of integration processes; areas where third countries would need support in order to derive benefits arising from integration processes; need to strengthen economic integration and cooperation groupings among developing countries; and the need for periodic reviews of the broader aspects of integration groupings.

212. The representative of **Canada** noted that, as regards regional integration, his country's most immediate experience was the conclusion of the North American Free Trade Agreement (NAFTA), signed on 17 December 1992 by the Governments of Mexico, United States and Canada. In creating a free-trade area, NAFTA had provided a solid foundation for future trade within North America and with other countries since it also included an accession clause for broadening membership to others accepting the same obligations as the existing NAFTA members. NAFTA did not erect any barriers to trade with third countries. Under NAFTA, the whole North American market would operate under the same transparent rules, including easier and more secure market access, which might create new trading opportunities. NAFTA marked the first free-trade agreement among developing and developed countries, and demonstrated the value of trade liberalization, as a complement to aid, in

pursuing sustainable development. Through NAFTA, the signatory States would improve trade, domestic prosperity and human, environmental and community development. NAFTA was compatible with the GATT rules and would contribute to trade liberalization. Upon its ratification, it would be submitted for consideration by GATT, as the appropriate forum for examining compatibility of emerging regional trade and integration agreements with GATT rules. Within an improved global trade-policy framework, the existence and addition of GATT-consistent, trade-liberalizing regional and sub-regional trade structures could be considered excellent means of pursuing sustainable development through trade.

213. The representative of **Japan**, while underlining the importance and positive role of regional integration, at the same time expressed concern that it could lead to protectionism and discrimination. Regional integration efforts must therefore be consistent with multilateral disciplines and accommodate trade and investment interests of third countries to the maximum extent possible. In regard to the Asian Pacific Economic Cooperation, the Government of Japan attached great importance to its strengthening and would respect the principles of non-discrimination and the open multilateral trading system. There was a need for continuous monitoring of regional integration processes. To some extent this was being done within GATT, but UNCTAD could nevertheless play a significant role. Japan supported the suggestion of the UNCTAD secretariat for a periodic, comprehensive review of integration groupings by the Trade and Development Board.

214. The representative of **China** noted that the end of the cold war had not brought about satisfactory growth in the world economy and trade. The economic recession faced by the developed Western countries and the difficulties experienced by the Central and East European countries had curtailed imports, slowed world economic growth and inhibited improvement of the trade terms of the majority of developing countries. The delayed conclusion of the Uruguay Round had allowed so-called "managed trade" to gain strength, casting a cloud of protectionism over the international trading system. At the same time, many countries, in particular the major trading ones, were making obvious progress towards the creation of trade integration groupings. While regional economic groupings had advanced trade liberalization and economic cooperation among their members, their external policy was nevertheless a cause of legitimate concern, particularly in the developing countries. China held the view that regional groupings should observe the following principles in their external policy and practice:
(a) The regional integration process should be consistent with multilateral regulations. It should neither replace endeavours to establish the multilateral trading system nor impede global trade liberalization.
(b) Regional groupings should consider themselves as part of the process of global trade liberalization and world economic integration. They should not only have a high degree of transparency, but should also be fair, open, non-discriminatory and non-exclusive to outsiders. (c) Regional integration must take fully into consideration the needs and requirements of developing countries, particularly the least developed countries. China was actively participating in the cooperation process in the Asia and Pacific region and would endeavour to strengthen these efforts.

215. The representative of **Colombia** cited the experience of the Andean Group, established in 1969 by Bolivia, Chile, Colombia, Ecuador, and Peru. Venezuela joined in 1973 but Chile withdrew in 1976. In the beginning the Group's main objective was to foster economic development through coordination of indicative planning, particularly in the industrial sector. Later common regimes for the treatment of foreign capital and transfer of technology gained importance, followed by education, public health and labour concerns. In 1984 about 60 per cent of intra-group trade was duty-free, but the global recession broke this dynamic development trend. Since 1989, however, integration efforts had been strengthened following public and private sector initiatives. As a result, trade among member States had grown phenomenally. The Andean Group represented a market of 93 million people, but was not a closed trading bloc. The Group maintained good trade relations with third countries, respected GATT rules and aimed towards trade liberalization. Its existence proved that integration among developing countries could be fruitful. In contrast, other regional integration schemes, particularly among developed countries, showed a tendency towards protectionism. A case in point was that of the European Community's Single European Market, in force since January 1993. The short experience to date pointed to a design restriction vis-à-vis imports, particularly pertaining to fruit and vegetables. Community measures bearing on the import of bananas were probably the most outrageous example of the erection of restrictive barriers although other examples abounded which, though less explicit in form, established a worrisome pattern affecting, above all, imports from developing countries.

216. Preliminary lessons drawn from regionalization and its GATT compatibility made it imperative to stress the relevance of the so-called "enabling clause" vis-à-vis article XXIV provisions. The multilateral system must preserve differentiated criteria for the examination of integration agreements, distinguishing between economic groupings from developing and developed countries. In the case of the former, the criteria should refer not only to the liberal or non-liberal nature of the effects of the scheme on third countries but to whether the scheme created or diverted trade. By using economic parameters to measure the effect of the agreements, the impact on the welfare of the population in participating countries could be assessed in terms of their development objectives. For integration schemes among developed countries, the analysis must go beyond that currently proposed under GATT's article XXIV, building on economic arguments demonstrating whether new trade barriers were being erected vis-à-vis third countries and whether trade flows among parties to a specific agreement and third countries were maintained - quite a different test.

217. The representative of the **Russian Federation** supported the conclusion in the secretariat report stating that processes of regional economic integration did not in themselves contradict the principles and norms of the international trading system. However, openness was essential; regional groupings should not result in closed economic spaces. Accordingly, the favourable trade and economic conditions created within integration groupings should become increasingly accessible to other participants. On the territory of the former Soviet Union a new subregional integration grouping was now being established which would be based exclusively on the market mechanism, with due regard for the economic interests of the newly independent States. In this context, the

disintegration of the former USSR and its heavy economic consequences had clearly illustrated the significance for national economies of long-standing and stable economic links free of trade barriers. Russia had concluded bilateral free trade agreements with all former Union Republics in 1992, eliminating import customs duties while temporarily keeping export duties on basic raw materials. A multilateral free trade zone would soon be established with the participation of the majority of the former Union Republics. The agreement on its formation was expected to be an integral part of the Treaty on Economic Union, to be concluded by the interested Commonwealth of Independent States countries. In elaborating various integration mechanisms, Russia had paid particular attention to conformity with existing international principles and norms, including Article XXIV of GATT.

218. The representative of **Brazil** referred to the experience of his country with MERCOSUR, the integration agreement comprising Brazil, Argentina, Uruguay and Paraguay. This agreement provided the opportunity for the countries concerned to strengthen their coordination in the economic field and in other areas, including environment and education. MERCOSUR had already marked progress in deepening the regional economic integration. One of the objectives of MERCOSUR was to ensure that the participating countries could have a gradual but constant integration, avoiding the idea of "jumping over the stages". MERCOSUR did not define a closed and exclusive economic space, since the grouping and its member States had growing trade relations with other groupings and partners. In fact, MERCOSUR maintained solid and balanced relations with the principal economic poles (European Community, United States and Japan-Asia). A positive outcome to the Uruguay Round negotiations was important because the process of regional integration must not lead to economic isolation but on the contrary form a consistent part of global economic integration and development, for the benefit of all trading partners.

219. The representative of **Argentina** referred to previous statements on the item and wished in particular to supplement remarks about emerging regional integration arrangements such as MERCOSUR. Regional economic integration in the Western Hemisphere had not only promoted intraregional trade but was aimed at generating closer cooperation across vast economic and social areas. Intraregional trade among MERCOSUR countries had increased 80 per cent between 1989 and 1992 and had also helped revitalize trade with some third countries. In addition, its dispute settlement system was intended to facilitate the smooth conduct of trade and the implementation of regional trade-liberalization measures. Above all, political will was the most essential element in strengthening regional integration processes, as was evident in the experience of the European Community and elsewhere.

220. The representative of **Belgium**, speaking on behalf of the **European Community and its member States**, noted that regional cooperation was not a recent phenomenon, especially for countries which shared a similar political context and which sought to enhance regional stability and to strengthen their relations by increased economic cooperation. However, there were new characteristics emerging. Now, increased regional integration, cooperation and consultation were a worldwide phenomenon. In all regions of the world, Governments had taken incentives to increase competitiveness by establishing integration schemes. New schemes now also encompassed arrangements on

investments, services, and consultation and cooperation on the environment, technology and labour standards. Moreover, in many developing countries, regional integration processes should be viewed in the context of structural adjustments, as regional initiatives were to some extent a consequence of efforts to integrate an economy into the world system, by opening up markets and liberalizing foreign investment. The benefits deriving from economies-of-scale, rationalization of production and investment within the regional grouping and the new possibility to explore the comparative advantage of a larger market all provided powerful arguments for regional integration as a development strategy adequate for the world of today.

221. The representative of the **European Economic Community** congratulated the UNCTAD secretariat on the comprehensive, well-researched report it had prepared on the evolution and consequences of economic spaces and regional integration processes. The focus on integration initiatives in Europe and their likely effects on developing countries confirmed that the European Community remained the most advanced and successful model. The problems which the Community had overcome highlighted the political will necessary to achieve this degree of integration. Its experience showed that regionalism and multilateralism need not conflict if a fairly liberal external trade regime was adopted. The integration process had been beneficial both to the Community itself and to its trading partners because it had led to more substantial multilateral trade liberalization than would have materialized otherwise. The nine-month old Single European Market (SEM) was also functioning quite satisfactorily. Goods now circulated freely inside the Community, creating greater ease of access to its market as well as enabling third-country exporters to profit from economies of scale. Disparities between member States' import regimes had also been eliminated, particularly the residual national quantitative restrictions which, in most cases, had not been replaced by Community restrictions. Furthermore, once a product was in conformity with one member's regulations, it could be sold throughout the Community. The same could be said about the creation of the European Economic Area as about the SEM and, *mutatis mutandis*, about the future accession of EFTA countries to the Community. This accession might affect the GSP schemes, but these concerns could be considered in the GSP reform envisaged by the Community. The explicit link between the Uruguay Round and the European agreements ensured that liberalization vis-à-vis Central and Eastern Europe would not be at the expense of other trade partners. The present decline in trade between Central and Eastern European Countries in Transition (CEECT) and developing countries was mainly due to the economic contraction of the former; in the long run, resumed growth in the Visegrad countries resulting, in part, from their closer integration into Western Europe held promise for reinvigorated trade with developing countries.

222. Integration schemes in other areas of the world showed how popular the European Community model remained; the Commission encouraged such efforts and stood ready to provide technical assistance, but the necessary political will could only come from the member States concerned. The need for industrialized countries' groupings to consider policies to encourage investment in developing countries so as to counteract possible private capital outflows had been addressed by the EC Investment Partners programme. The Cartagena Commitment (para. 14) had welcomed large economic spaces involving major

trading partners for the benefits accruing to developing countries, provided that the impact on non-participating countries of binding international rules was respected. The multilateral trading system provided certain safeguards; in particular, Article XXIV of GATT specified the requirements which countries involved in a process of economic integration had to respect. This Article along with other rules and disciplines were at present under revision in the framework of the Uruguay Round. The outcome would determine the limits of new disciplines and rules. And only then would it be possible to determine the need for a review based on other, non-binding criteria. However, compliance could only be examined in the framework of GATT. The Cartagena Commitment called on the Trade and Development Board to review the implications for developing countries of emerging regional free trade and economic integration agreements. The report prepared by the UNCTAD secretariat was an excellent basis for such a review and discussion. However, the Board should not engage in regular monitoring of this subject since paragraphs 66 and 146 of the Cartagena Commitment implied that this was a one-time exercise between UNCTAD VIII and UNCTAD IX and that the intervening sessions of the Board would address other subjects.

223. The representative of **Austria** emphasized that since the mid-1980s, with the extension of the European Community towards Southern Europe and the establishment of NAFTA, the old concepts of North-North and South-South integration had been gradually replaced by North-South models. Austria's experience with economic integration through participation in EFTA had been positive and, therefore, three further integration moves had been launched. The most recent was a Free Trade Agreement with the CEECT. This integration was beneficial for third countries, because the opening of the Austrian market was made possible by the economic strength gained thereby. Regarding Austria's negotiations for membership in the European Community, he underlined the political rather than economic nature of this step and added that it was much too early to speculate on the consequences; in this regard, the relevant part of the secretariat's report had a number of weaknesses which might need revision. In closing, he stressed the importance of a strong global system for lowering or eliminating trade barriers. To this end, Austria strongly supported the successful conclusion of the Uruguay Round.

224. The representative of **Romania** stated that regional integration and multilateral liberalization could reinforce each other. To this effect, regional integration should facilitate trade and cooperation among members without erecting barriers to trade with third countries. Regional agreements would thus bring advantages to countries both within and outside such arrangements. GATT provided a mechanism by which to monitor regional integration so that it did not take place at the expense of third countries. In the same vein, multilateral trade negotiations had helped erode regional preferences, to the benefit of non-members. Romania had concluded association agreements with the European Community and a free trade agreement with the member countries of EFTA but these agreements in no way adversely affected economic relations with third countries. It was necessary to pursue in parallel regional and multilateral efforts to develop international trade. UNCTAD could facilitate these efforts.

225. The representative of the **United States of America** noted that, in general, the countries forming regional arrangements were those at the same economic level. Regional integration processes would, over time, become more like each other. The North American Free Trade Agreement (NAFTA) was really quite simple: it would eventually eliminate tariff and non-tariff barriers among Canada, Mexico and the United States, creating a single market. These actions were consistent with the spirit and the letter of GATT. No country could remain closed off from competition in the new global market revolutionized by technological and capital fluxes. The question was not whether to adapt, but how. The United States sought to open its markets and to trade and compete worldwide. Completing the Uruguay Round, reducing tariff and non-tariff barriers worldwide, and writing new rules for the international trading system thus remained a top priority. While Canada remained the number one trading partner, Mexico had become the third leading partner; evidently geographical proximity made a difference, even in a globalized economy. Other agreements on common matters were also important, such as those on intellectual property, investment rules and trade in services. The United States was looking forward to expanding trade and investment with all Central, Latin American and Caribbean countries, many of which were liberalizing their economic and political systems, and reducing tariff and non-tariff barriers. This region had become the second-fastest-growing market for United States exports, expanding at a rate twice that of exports to the rest of the world.

226. The representative of **Switzerland** expressed full support for the view presented in the secretariat report: regional integration should complement other efforts to maintain and develop the international trading system. The document could, she felt, have paid somewhat greater attention to the following points: a systematic classification of regional integration arrangements; their historical context; political and economic motivation. Furthermore, an evaluation of the different types of integration arrangements in the light of their objectives would have been useful in order to draw lessons for the future. It was satisfying to note that the *ex ante* analysis of the regional arrangements in North America and Europe had suggested that they were not adversely affecting the multilateral trading system. Switzerland attached crucial importance to an open multilateral trading system and the development of clear and predictable rules, particularly as the country was not a member of the highly integrated regional arrangement formed by the European Community.

227. The representative of the **Czech Republic** said that accelerated globalization of economic activities and intensification of regional integration had included the creation of the Central European Free Trade Area, which was being established among the Visegrad countries (Czech Republic, Hungary, Poland and Slovakia). The disintegration of CMEA had raised the question of the orientation of foreign economic relations. For political and economic reasons, the clear priority was to develop cooperation with the European Community as support for the transition process. The conclusion of the Central European Agreement on Free Trade among Countries of Central Europe was less ambitious in its aim, namely to stimulate, on the basis of GATT rules, regional trade. While Hungary and Poland had traditionally been the top trading partners of the former Czechoslovakia, the conclusion of

agreements of association with the European Community (EC) and on free trade with countries of the European Free Trade Association (EFTA) had given rise to a situation whereby the Visegrad Four countries had granted certain preferences to trade with EC and EFTA but not to each other. The mutual reduction of tariffs and elimination of other trade barriers among the Visegrad countries could stimulate exports. The basic obligations of the agreements were multilateral in character, but tariff concession lists were bilateral. The agreement on a tariff union of the Czech Republic and Slovakia allowed them to undertake obligations jointly. The agreement also included a joint declaration on opening, upon signature of the agreement, talks on shortening the transition period for concessions.

228. The spokesman for the **Asian Group** (Sri Lanka) emphasized that the Board's deliberations on this item should be guided by paragraphs 63 (3) and 146 of the Cartagena Commitment. The trends towards regional integration had raised the question of whether regional trade arrangements were likely to hinder or support the open multilateral trading system. The Asian Group was concerned that developments, such as the establishment of NAFTA and the expansion of the European integration process, might limit market access for Asian countries to their main traditional markets and perhaps have other adverse policy implications. While positive effects such as trade creation might take some time to materialize, negative impacts on the third countries in the area of investment and trade diversion could be expected sooner. The Asian Group therefore favoured close continuous review of these arrangements by the Board. Through this mechanism, potential problem areas could be identified soon enough to take preventive action. This would reduce tensions and apprehensions. The Board should act as a forum for solving problems which regional arrangements might entrain. For this purpose, the UNCTAD secretariat should undertake a continuous evaluation, with special emphasis on the interests of developing countries, and prepare necessary background studies. The Asian Group was concerned about the risk of further marginalization of weaker and small trading nations outside regional arrangements. Members of integration groupings had to work with those outside and make arrangements to provide technical support, training and other assistance in adjusting to new trading conditions. Ways and means should be explored for assisting and compensating any losses to developing countries because of regional integration arrangements. One of the major reasons for weak economic cooperation among developing countries was the absence of financial and other resources required to implement suitable arrangements and develop their full potential. As the UNCTAD study had illustrated, successful integration arrangements had been accompanied by increases in domestic and foreign investment. Investments and financial flows from outside could always play a catalytic role. The decision taken at the first session of the Standing Committee on Economic Cooperation among Developing Countries to have a policy dialogue with a view to mobilizing support for regional integration programmes of developing countries was welcomed.

229. The representative of **Bangladesh** stated that the increasing trend towards regional integration was viewed by many countries, particularly those outside such groupings, as a cause for concern. It raised questions about the impact of such arrangements on the international trading system as a whole, as well as about effects on the trade and economic growth of

non-participant countries. Not all developing countries were equipped to draw advantages from the potential growth effects of stiffer competition. Close, continuous review of integration arrangements was necessary. Ways and means might be explored for assisting and compensating the weaker trading partners. An international dialogue on the economic implications of integration schemes could enhance mutual understanding, reduce apprehensions of third countries and facilitate corrective action. The Trade and Development Board should, therefore, undertake to ensure that economic integration arrangements were outward-oriented and aimed at promoting a more liberal world trading and investment regime, fostering economic growth for both the participants in regional groupings and third countries.

230. With reference to chapter 7 of the secretariat report, "Regional integration and the international trading system", the representative of **Sweden** emphasized that care should be taken to maintain a clear distinction between the competences of UNCTAD, on the one hand, and GATT, on the other.

231. The representative of **Hungary** supported the statement made by the representative of Sweden.

Action by the Sessional Committee

232. At its 6th plenary meeting, on 29 September 1993, Sessional Committee I adopted its conclusions on agenda item 5 (TD/B/40(1)/SC.1/L.3).

Action by the Board

233. The action taken by the Board on agenda item 5 is reported in TD/B/40(1)14 (vol. I), section I.A.

Chapter V

DEVELOPMENTS AND ISSUES IN THE URUGUAY ROUND OF PARTICULAR CONCERN TO DEVELOPING COUNTRIES

(Agenda item 6)

234. For its consideration of this agenda item the Board had before it the following document:

> "Developments and issues in the Uruguay Round of particular concern to developing countries" (TD/B/40(1)/CRP.1).

235. Introducing this item, the **Director of International Trade Division** emphasized that in recent months there had been positive signals coming from major trading countries demonstrating their increasing political will to address some of the key outstanding issues in the Uruguay Round, thus paving the way for its successful conclusion by the end of 1993. In this context, the developing countries were likely to face a combination of complex problems during the concluding phase of the Round, involving, firstly, the magnitude of benefits which could be derived for them from the successful negotiations, first of all in terms of commitments, rules and disciplines resulting in meaningful improvements in market access for their export products and, secondly, their own increased obligations in the international trading system. Thus, it was important that the basic provisions of the Punta del Este Declaration were fully applied in the negotiations and in their implementation. An early and comprehensive evaluation of the Uruguay Round from the point of view of the developing countries as foreseen in Part I, Section G, of the Punta del Este Declaration should be conducted before the conclusion of the negotiations, to provide a basis for a possible corrective action in order to preserve the interests of developing countries. The potential impediments to a successful conclusion of the Round could arise from a variety of political factors, and a decisive factor would be the determination of the Governments to resist pressures from narrow interest groups. It should also be recognized that it is not credible to seek the weakening of disciplines in one area, while seeking to impose stringent disciplines in others, and that all countries should accept bringing their laws and regulations into conformity with multilateral disciplines and agreements.

236. A new element had been added recently, namely "a future work programme" that might accompany the final package of the Uruguay Round. It would seem that two categories of issues could be associated with such a work programme: (a) some agreements in the Draft Final Act specifically provided for further multilateral negotiations (e.g. Agreement on Agriculture, General Agreement on Trade in Services, Agreement on Rules of Origin, Decision on Trade-Related Aspects of Investment Measures); (b) secondly, in parallel to the efforts to conclude the Uruguay Round, there were already visible activities aimed at defining new multilateral negotiating objectives for the future. It could be expected that new priorities would be pursued aimed at addressing new areas where, from the point of view of some major trading countries, multilateral rules and disciplines were required to establish the so-called "level playing

field" for competition. Such a concept would seem to be a reaction to the state of liberalization achieved in relation to border protective measures, indicating that other economic policy measures which could influence competitiveness and investment decisions were perceived as requiring international disciplines. The major thrust of future multilateral trade negotiations could well be associated with providing basic ground multilateral rules for international investment, aimed particularly at preventing investment decisions being influenced by specific national policies and legislations such as lower environmental standards, weaker competition rules and lower labour and social protection standards. However, these new approaches could also serve protectionist interests and could well be directed at offsetting the comparative advantage which developing countries and economies in transition enjoyed in the world economy, thus nullifying the anticipated benefits from their open-economy development strategies.

237. A particularly disturbing phenomenon that had recently emerged was the resurrection of the protectionist philosophy in some quarters of important developed countries. Proponents of this philosophy, possibly seeking to derive political advantage from the current high unemployment levels in developed countries, had launched a counter-offensive against trade liberalization, proposing various "managed trade" schemes as vehicles for sustaining employment in developed countries. Exports from more efficient producers was often viewed as "unfair competition", while growing exports to these countries was conveniently ignored. Nothing in the above philosophy was new. The modern international trading system had been designed to prevent such arguments from ever again being translated into policy. In today's globally interdependent world, the costs of such short-sighted approaches would be much higher and unpredictable. The proponents of a new protectionism tended to forget the lessons of history and, most importantly, the fact that the origins of wealth and high living standards in the developed world were based on exploitation of comparative advantage, diversity in labour standards aimed at developing dynamic competitive edge, and continued trade liberalization based on non-discrimination. These lessons were no less relevant to the developing countries and countries in transition to a market economy. It was paradoxical that such arguments were being put forward at a time when most developing countries and countries in transition to a market economy had adopted open market-oriented economic and trade policies and were seeking comprehensive trade liberalization at the multilateral level in order to make the world economy more dynamic.

238. The experience of the Uruguay Round highlighted the need for a more intensive consensus-building process at the global level to identify more clearly the objectives of future negotiations and to achieve a more universal acceptance of the legitimacy of interests of various participants at different levels of development. It was vital to ensure that such a process began without delay in the post-Uruguay Round period. UNCTAD, in accordance with its functions and mandates as defined by the Cartagena Commitment, had an important substantive role to play in such consensus-building.

239. The spokeswoman for the **Latin American and Caribbean Group** (El Salvador) said that the completion of the Uruguay Round, in an equitable manner and within the prescribed time frame, was indispensable if the world economy was

to emerge from its current difficulties and avoid a deeper recession and an increase in trade disputes and political tensions. The Latin American countries had undertaken major structural adjustment and liberalized access to their markets on a unilateral, autonomous basis. This had led to increases in imports from third countries, which could only be maintained if Latin American exports received reciprocal treatment. However, the contrary had occurred in that the region was faced with new protectionist barriers and non-compliance with GATT rules. The protectionist language used by many political leaders in developed countries was a further cause for concern. The claim that trade liberalization threatened employment opportunities ignored the reality of the globalization of the international economy. Recent studies had clearly demonstrated the extent to which employment in the developed countries depended upon international trade.

240. The time remaining to conclude the Round was extremely short, and it was essential that the major trading countries adopt more flexible positions and desist from attempting to reopen the texts of the Draft Final Act. She added that the Latin American Group favoured the creation of a multilateral trade organization, with an effective dispute settlement mechanism to guarantee the Uruguay Round results and to oblige countries to renounce unilateral measures.

241. A balanced conclusion to the Round required a satisfactory result in the area of market access where the situation had not evolved favourably with respect to priority sectors for the Latin American region. In particular, it was indispensable that significant and generally acceptable results should be reached in the agricultural sector. The offers made by the major developed countries to date did not respond to the needs of her region, as they covered sectors of exclusive interest to the countries concerned, but only a minute percentage of imports to those countries from Latin America.

242. The Latin American countries were concerned that the current opportunity to agree on a multilateral framework for international trade would not present itself again in the near future and she called upon the developed countries to assume their responsibilities in this respect.

243. The spokesman for the **Asian Group** (Pakistan) welcomed the Blair House Agreement and the Quad Agreement inasmuch as they would enable major trading countries to resolve their difficulties and to return to Geneva. These agreements had been reached, however, without taking the concerns of the other trade partners, especially the developing countries, into account. Despite the insistence of the developing countries that transparency should be injected into the negotiations, the main trading nations had tended - particularly after the end of the cold war - to ignore the developing countries to the point where they were completely marginalized. Whatever balance had been achieved in the Draft Final Act in the area of agriculture had now been disturbed by the Blair House Agreement, particularly from the point of view of the developing countries. In some products of export interest to the developing countries, the reduction and reform commitments varied from none to very marginal. Some items of particular export interest to developing countries - cotton and rice being the most important - might not be included in the reduction commitment on internal support in at least two major trading countries. The developing countries would like to see their

concern reflected in the draft schedules of developed countries. The Asian Group countries were also very interested in the export of textiles. The recently concluded Market Access Accord between the four major countries, when expanded, should take into account the special and differential treatment to the developing countries envisaged in the Punta del Este Declaration, and the package should cover most products of export interest to developing countries.

244. The early and successful conclusion of the Uruguay Round remained a priority of the Asian developing countries as they knew that a successful conclusion to the Uruguay Round would stimulate the growth of world trade as a result of improved market access, fair competition based on strengthened rules, and differential and more favourable treatment for developing countries. More activities would come within the ambit of multilateralism, such as trade in agriculture, services, and TRIPs. The integration of trade in textiles into the multilateral system, through the phasing out of the Multi-Fibre Arrangement and tighter disciplines on subsidies and safeguard measures, would help to increase world trade by ensuring predictability and fair play. The Asian Group was also sensitive to the fact that a failure to conclude the Round would undermine multilateralism and would dampen the prospects for sustained economic recovery, encouraging unilateral solutions to trade disputes.

245. He agreed with the view of the Group of 77 that the Uruguay Round should be finalized in a balanced manner, taking into account the financial, trade and development needs of developing countries, especially those of the least developed among them. Special efforts should be made in the market access negotiations, where important offers presented by most developing countries had not been matched by satisfactory offers by developed countries on products of export interest to them.

246. With respect to the evaluation of the results of the Uruguay Round as envisaged in the Punta del Este Declaration and referred to recently by the Director-General of GATT, he emphasized that this evaluation should be undertaken in good time so that any necessary corrective measures could be made. UNCTAD could contribute to this evaluation, notably by providing technical assistance.

247. The representative of the **European Economic Community** emphasized that an early, global and balanced conclusion of the Uruguay Round was still the best possible means to find again the road towards non-inflationary economic growth, both for developed and developing countries. The current tide of opinion against trade liberalization in certain quarters underlined the necessity for negotiators of all countries to search for balanced solutions, not only from a global or bilateral point of view, but also at the sectoral level. The completion of the Round by 15 December 1993 was a realistic target, and the general feeling of all participants was that the negotiations were really in their final "deal-making" phase. The EC wished to see the concluding phase of the Round conducted in a structured and orderly manner. Above all, the settling of outstanding issues must not be postponed until the eleventh hour.

248. The heart of current negotiations was market access issues. In a political sense, since April 1993 the EC had been working hard with its "Quad" partners towards defining an outline in the area of market access. This work had resulted in the "Tokyo package", which had two merits: firstly, it was a concrete framework for negotiations, and secondly it contained an imaginative, simplified and combined formula that had been proposed by the EC negotiators and accepted by other Quad countries. The EC was aware that, for the moment, certain developing countries did not find their direct interest reflected in the Tokyo package, but this was partly inevitable as the Quad partners aimed to establish a common outline and thus to create a central nucleus, which through a progressive multilateralization would provide for a snowball effect. In general, he was fairly optimistic about the present stage of market access negotiations. For example, in the textiles sector, which was quite important for developing countries, improvements in access to the EC market were 50 per cent higher than those envisaged before Tokyo. In this context, criticism from developing countries was not completely well-founded. He admitted, however, that difficulty remained in implementing the whole of the Tokyo package. The EC had conducted bilateral meetings on market access with almost all of its partners. Difficult negotiations were still to be faced, and the EC clearly had the necessary political commitment to carry them out. He added that the negotiations on services had progressed in an orderly and dynamic manner.

249. As to an early evaluation of the Round's results for developing countries, as envisaged in the Punta del Este Declaration, the EC was not only a full supporter of this idea, but had been strongly encouraging the new Director-General of GATT to proceed with this evaluation prior to the conclusion of the Round. He considered that the criteria for such an evaluation that had been presented in the UNCTAD secretariat's note were interesting.

250. Regarding possible creation of a multilateral trade organization (MTO), he recalled that the EC had been proposing a new organization as an instrument to counter the unilateralism of some of its trading partners. He urged those developing countries that had not yet submitted their offers on market access and services to do so promptly, even if minimally, pointing out that, in order to accede to the MTO, the founding member countries should present their offers in those two areas. It would be regrettable if some countries were absent from such an important forum. The Community would be prepared to provide, on a bilateral basis, technical assistance to developing countries to help them make their submissions.

251. Commenting on the rule-making area and the Draft Final Act (DFA) of the Uruguay Round, he recalled that the EC had been the first to say that it was prepared to accept only a very limited number of modifications to the DFA and that attempts to re-open the negotiations should be curtailed. Furthermore, he considered that an effective dispute settlement system would benefit those trading partners that lacked the power to take retaliatory measures against other countries.

252. Finally, expressing the Community's solidarity with the developing countries and its full understanding of their concerns relating to the evaluation of the Round's results, he said that the EC was also considering with sympathy the requests made by the least developed countries. One could well envisage specific modalities for the application by these countries of generally accepted rules and disciplines.

253. The representative of **Bangladesh** observed that the Uruguay Round negotiations had reached a critical stage. Since the tabling of the Draft Final Act (DFA), his delegation stressed that the concerns of the least developed countries were not reflected in a consistent and fair manner in the various instruments. He hoped that the participants in the Uruguay Round would honour the Punta del Este political commitment they had made in respect of the LDCs. He appreciated the consultations that had been initiated by the Director-General of GATT on how to achieve the Punta Del Este objective of giving special attention to the particular situation and problems of the LDCs and to the need to encourage positive measures to facilitate the expansion of their trading opportunities. Noting that the Chairman of the Trade Negotiations Committee would continue consultations with delegations with a view to determining the most opportune time for conducting an evaluation of the Round's results, he said that a comprehensive evaluation should be conducted before the conclusion of the negotiations. Such an evaluation would provide a basis for corrective action. For this purpose, the criteria set out in the secretariat note would be useful for undertaking the evaluation. The UNCTAD secretariat should make a contribution in the evaluation process. In the end, the overall final package of the Uruguay Round would lack political credibility if the LDCs were not helped to join the consensus.

254. The representative of **Argentina** considered that the Uruguay Round had three main objectives: (a) to redefine the rules of a multilateral trading system which had become eroded over time; (b) to oblige all countries to accept the rule of a strengthened multilateral system and adapt national legislation to this system so as to avoid unilateralism; and (c) to integrate into the system those sectors to which multilateral disciplines had not previously applied, such as agriculture and textiles. He pointed out that the negotiations were still far from attaining a balanced package in that the proposals for tariff reductions agreed upon by the major developed trading countries did not respond to the interests of developing countries. A study by the UNCTAD project LATINTRADE indicated that these reductions would have a minimal impact on the tariff protection facing exports from Latin America.

255. The challenge of the Uruguay Round was to establish the trading rules for an integrated world economy. Measures such as agricultural subsidies by major industrial countries which had robbed Argentina of major export markets were clearly inconsistent with a system which would permit all countries - large or small, developed or developing - to integrate into the world economy.

256. The representative of **China** expressed his delegation's concern at the delay in the conclusion of the Uruguay Round caused by the stalemate over agricultural subsidies in certain developed countries and by the difficulty of balancing the interests of all the parties concerned. In the current world economy, beset with slow growth, slow recovery and high

unemployment, international trade was faced with the direct challenge posed by protectionism. The multilateral trade regime stood at the crossroads and the success or failure of the Uruguay Round would have a bearing on the growth of the world economy and the survival of the world trading system. Failure could even affect world security. The successful conclusion of the Round required efforts to be made by all parties, especially the developed partners, to reach a balanced package.

257. China as a full participant, had been involved in the negotiations on all subjects and had put forward constructive proposals and suggestions. In the course of the negotiations, his Government had on several occasions lowered tariffs on thousands of products and reduced or abolished some non-tariff measures. China had also opened up its services sector to the outside world, inter alia in finance, shipping, construction, tourism, legal service, accounting, computers, advertising, and oil fields services. China had made a conditional offer concerning initial commitments on trade in services and had actively participated in the corresponding negotiations. His country had thus made a substantial contribution to the Uruguay Round and to the process of trade liberalization.

258. In reaffirming his country's position on certain issues of particular concern to the developing countries, he pointed out that the Quad Agreement on market access failed to cover all the relevant areas for tariff reduction. In particular, there were insufficient tariff reductions in such areas as agricultural and tropical products, electronics, textiles and clothing, which were of particular concern to the developing countries. He appealed for appropriate tariff reductions for those products in the final stage of negotiations so as to reach a balance of interests for all the parties.

259. As for trade in textiles, he noted that the draft agreement on textiles contained in the Draft Final Act provided for phasing out of the MFA within a fixed time period so that trade in textiles could be integrated into the multilateral trading system. In his view, this was a first step in the liberalization of trade in textiles. The developed importer countries should further reduce the high tariffs on textiles and clothing, otherwise market access and the liberalization of trade in textiles would not be complete. Recent unilateral actions against textile exporter countries and the arbitrary deduction of textile quotas by a certain major trading country were inconsistent with international agreements and the principle of trade liberalization.

260. Regarding trade in services, he noted that the developed countries had not yet responded favourably to the request made repeatedly by the developing countries on favouring the mobility of personnel from the developing countries. On the contrary, in some services sectors the developed countries had asked the developing countries to make contributions which were inconsistent with their individual development, financial and trade needs. He hoped that, in the final negotiations on initial commitments, more attention would be given to the requests and interests of the developing countries so as to reach a balanced agreement on trade in services acceptable to all participants.

261. The representative of **Ecuador** subscribed to the position of the Latin American Group and stressed the concern that growing protectionism in the developed countries, particularly affecting agricultural and tropical products, threatened to undermine the possibility of developing countries' obtaining reciprocity in the Round. In the negotiations, a striking example of the bottlenecks referred to by the Deputy Director-General of GATT was the "offer" presented by the European Community on bananas. This was the import regime for the Community's single market that was being rejected both by the Latin American banana exporters with respect to its compatibility with the GATT and by Germany in the Court of Justice of the European Communities. Obviously, a regime that was sub judice could not be regarded as an offer.

262. The representative of **Australia** said that, as pointed out in the secretariat's note, prospects for a successful conclusion of the Uruguay Round had brightened since the Tokyo Summit. Indeed, after a few vicissitudes, the prospects were now brighter still and the negotiations seemed to have shown a genuine revival. As the Uruguay Round negotiations represented the collective interest of all countries, the new energy now apparent no doubt meant that all participants were aware of the benefits the Round would bring and, conversely, of the costs of failure. The apparent resurgence of protectionist philosophy, including proposals for "managed trade", was a disturbing reminder of the inevitable consequence of a failure of the Round. He warned that there was now very little time to settle the most sensitive issues in delivering a balanced and truly trade-liberalizing package. Accordingly, while the prospects for success were better now than they had been for a long time, all participants would need to make a great effort to ensure the success of the final outcome.

263. The representative of **Jamaica** said that the successful conclusion of the Uruguay Round would result in strengthened multilateral rules and disciplines for governing international trade. These new rules should reflect balanced rights and obligations for all players and facilitate free competition and improved market access. The Government of Jamaica remained committed to working towards the successful conclusion of the Round within the time envisaged and believed that the Round should address the interests of all participants in a balanced and equitable manner and ensure that the special concerns of developing countries were adequately addressed. He shared the view that the Draft Final Act and the Punta del Este Declaration should continue to form the basis of the negotiations. The Draft Final Act should be supplemented by a comprehensive package of specific commitments in the area market access and services. Market access was the critical yardstick by which the benefits obtained from the Round for developing countries would be measured. The extent to which access was provided by the major trading nations and the inclusion of sectors of particular interest to developing countries - such as tropical, agricultural and natural resource-based products - were the criteria by which the results of the Round were to be assessed. The developing countries should be given recognition for their trade liberalization measures in the negotiations on market access as a sign of reciprocity from the major trading partners. He looked forward to the scheduled evaluation of the Round's results to be carried out in accordance with the Section G, part I, of the Punta del Este Declaration in order to ensure that developing countries received differential and more favourable

treatment. The EC banana import regime and its perceived implications for banana exports from Latin America were of vital importance for Jamaica as well as for several other developing countries within the African, Caribbean and Pacific group. Certain countries, including Jamaica, had entered into legal, contractual and binding obligations with the European Community on a range of issues, including market access for bananas, and that these rights had to be honoured and respected.

264. Referring to the net food-importing countries, including Jamaica, he said it was likely that these countries would encounter serious difficulties because of the increases in world food prices resulting from the proposed reforms in agricultural trade envisaged in the Draft Final Act. Additional resources were needed to help these countries adjust to the new situation. There could also be increased concessional access to existing facilities of the international financial institutions. Efforts could also be made to enhance the capacity of net food-importing countries to increase their agricultural production, in particular food production.

Action by the Board

265. The action taken by the Board on agenda item 6 is reported in TD/B/40(1)/14 (Vol. I), section I.B.

Chapter VI

SPECIFIC ACTION RELATED TO THE PARTICULAR NEEDS AND PROBLEMS OF LAND-LOCKED DEVELOPING COUNTRIES

(Agenda item 7)

266. For its consideration of this item, the Board had before it the following documentation:

> "Report of the Meeting of Governmental Experts from Land-locked and Transit Developing Countries and Representatives of Donor Countries and Financial and Development Institutions" (TD/B/40(1)/2 - TD/B/LDC/AC.1/4);
>
> "Specific actions related to the particular needs and problems of land-locked developing countries: Note by the UNCTAD secretariat" (TD/B/40(1)/3);
>
> "Results of specific studies related to transit and its alternatives: Report by the UNCTAD secretariat" (TD/B/40(1)/4);
>
> "Contributions by Governments, international and intergovernmental organizations and non-governmental bodies: Report by the UNCTAD secretariat" (TD/B/40(1)/5 and Add.1).

Consideration in Sessional Committee II

267. The **Director of the Division for Least Developed, Land-locked and Island Developing Countries** said that General Assembly resolution 46/212 had called for action in three main respects. Firstly, and pursuant to the resolution, a Meeting of Governmental Experts from Land-locked and Transit Developing Countries and Representatives of Donor Countries and Financial and Development Institutions had been held in May 1993 in New York. The agreed conclusions and recommendations of the Meeting dealt primarily with the identification of priority areas for transit cooperation and modalities for action to improve transit systems. The priority areas included the establishment of an effective regulatory framework and the development and maintenance of transit infrastructure and services. The measures recommended by the Meeting were to be undertaken at the subregional, national and international levels. Action at the subregional level included the strengthening of legal instruments to regulate transit operations, the improvement of transit documentation procedures, the harmonization of inter-country road maintenance, the liberalization of trade and transit services, the promotion of joint ventures in the development of transit facilities and services, and the standardization of regulations governing carriers' liability.

268. At the national level, the Meeting had recommended, inter alia, the development of inland dry ports to facilitate the movement of transit cargo, the improvement of the management of port operations, and the implementation of national training programmes in the transit sector. At the international level, the Meeting had agreed that the donor countries and financial and development institutions should give high priority to projects and programmes

that enhanced transit cooperation. The Meeting had further agreed that Donors should provide financial and technical assistance on concessional terms or in the form of grants in order to take into account the special difficulties facing land-locked and transit developing countries. The Meeting had also agreed that the newly independent land-locked States in Asia and Transcaucasia should receive special attention in order to improve the transit systems serving these countries.

269. With regard to follow-up modalities to monitor the implementation of the agreed recommendations, the Meeting had recommended the holding of similar meetings of governmental experts from land-locked and transit developing countries and representatives from the donor community every two years. The Meeting had also recommended holding regular symposia to monitor progress at the subregional and regional levels.

270. Secondly, in accordance with paragraph 10 of General Assembly resolution 46/212, specific studies had been carried out in the following areas of transit: subregional and regional cooperation, transit insurance, application of new information technology, identification of training needs, and air freighting. She invited the Board to comment on these studies, as contained in document TD/B/40(1)/4, and to forward its comments to the General Assembly.

271. Thirdly, pursuant to paragraph 9 of General Assembly resolution 46/212, a report had been prepared reviewing the action taken by the international community on behalf of the land-locked developing countries (TD/B/40(1)/5).

272. The **Chairman** said that the Meeting of Governmental Experts, held in New York in May 1993, had been the first of its kind, in that it had provided the first opportunity for land-locked and transit developing countries, together with their development partners, to meet and discuss transit problems in a global forum. The Meeting, which had been attended by most of the land-locked and transit developing countries and donor countries and institutions, had adopted conclusions and recommendations which focused on priority areas for action at the national, subregional and international levels. The results of the Meeting marked a major breakthrough in transit cooperation between land-locked countries and their transit neighbours, and had received strong support from the donor community.

273. The spokesman for the **Asian Group** (Nepal) said that the report of the Meeting of Governmental Experts from Land-locked and Transit Developing Countries and Representatives of Donor Countries and Financial and Development Institutions made a valuable assessment of the range of problems which land-locked countries and their transit neighbours faced in the movement of transit cargo. The agreed conclusions and recommendations of the Meeting highlighted priority areas for action such as the improvement of the regulatory framework governing transit operations and the development of transit facilities and services. They also contained a range of measures to improve transit systems. These measures were designed to strengthen transit cooperation between land-locked and transit neighbouring countries with the support of the international community. He fully supported and endorsed the agreed conclusions.

274. With regard to the recommended modalities for improving transit systems, he proposed that the UNCTAD secretariat, in close collaboration with the regional economic commissions, should hold consultations with the developing land-locked countries and their transit neighbours at both the national and the subregional level with a view to assisting them in implementing the various recommendations contained in the report. He also commended the specific studies carried out by the UNCTAD secretariat as requested in General Assembly resolution 46/212. He proposed that the UNCTAD secretariat, further to paragraph 11 of the General Assembly resolution, should convene symposiums and workshops for experts from land-locked and transit developing countries on the basis of the studies in question. Finally, he recommended that the special programme dealing with the problems of land-locked developing countries within the UNCTAD secretariat be strengthened to enable it to carry out more in-depth policy studies, provide policy advice and technical assistance to land-locked countries and their transit neighbours, and play a more effective role as a focal point for mobilizing international support in favour of these countries at a global level.

275. The representative of **Bolivia**, speaking on behalf of the **land-locked countries of Latin America**, commended the UNCTAD secretariat for the documentation presented to the Board and for convening the Meeting of Governmental Experts from Land-locked and Transit Developing Countries and Representatives of Donor Countries and Financial and Development Institutions. The trading disadvantages of the land-locked countries were reflected in the higher costs of their imports and the reduced competitiveness of their exports. Efforts to pursue free trade policies were frustrated by transit costs, which were in fact barriers to trade hindering economic growth.

276. With respect to the meeting of Governmental Experts, she noted that the conclusions and recommendations of the Meeting properly reflected the priority areas for cooperation. She urged their effective implementation in order to enhance the social and economic situation of land-locked countries. Referring to the particular problems of land-locked developing countries, she noted *inter alia* that, on the basis of available statistical data on a number of socio-economic indicators such as mortality rate and life expectancy at birth, the gap between the land-locked countries and other developing countries was growing.

277. Particular attention should be given to enhancing global cooperation related to training of personnel, organization of symposiums and seminars, improvement of national, regional and international legislation, and holding of regular meetings to evaluate progress in the implementation of the recommendations made by the Meeting of Governmental Experts.

278. She suggested that the Board should endorse the agreed conclusions and recommendations of the Meeting of Governmental Experts and submit them to the General Assembly. The Board should also invite the Secretary-General of UNCTAD to provide, within the existing budgetary resources for 1993-1994, advisory services to the land-locked countries with a view to assisting them in overcoming their particular problems.

279. The spokesman for the **African Group** (Sudan) commended the documentation prepared by the UNCTAD secretariat and expressed his Group's full support for the agreed conclusions and recommendations of the Meeting of Governmental Experts from Land-locked and Transit Developing Countries and Representatives of Donor Countries and Financial and Development Institutions. Those conclusions and recommendations fully reflected the situation and the needs of the land-locked and transit countries. The effective and full implementation of the proposed measures would help to ease the problems of transit transport and improve transit systems. He proposed that the Board submit the agreed conclusions and recommendations of the Meeting to the General Assembly for appropriate action.

280. In order to assist the African land-locked and transit countries in the implementation of the recommendations of the Meeting, the African Group requested the UNCTAD secretariat, as a focal point for specific actions related to land-locked developing countries, to hold consultations with the land-locked and transit developing countries, in close collaboration with the Economic Commission for Africa, with a view to ensuring that those recommendations were effectively implemented. The African Group also requested the Secretary-General of UNCTAD to proceed, in accordance with paragraph 11 of General Assembly resolution 46/212, with the convening of symposiums/workshops of experts from land-locked and transit developing countries, on the basis of the studies prepared pursuant to General Assembly resolution 46/212. The African Group further requested the Secretary-General of UNCTAD to prepare a study reviewing the status of adherence to and implementation of relevant international transit conventions by land-locked and transit developing countries. Such a study should make proposals aimed at ensuring that all the member States concerned ratified and fully implemented the conventions in question.

281. The representative of **Belgium**, speaking on behalf of **the European Community and its member States**, emphasized the importance of cooperation between land-locked and transit countries. He therefore welcomed the agreed conclusions and recommendations of the Meeting of Governmental Experts from Land-locked and Transit Developing Countries and Representatives of Donor Countries and Financial and Development Institutions. The European Community endorsed the areas of priority for cooperation presented in the report of the Meeting. He also welcomed the results of the specific studies on transit transport which had been carried out by the UNCTAD secretariat.

282. He noted that the European Community provided financial and technical assistance to the land-locked developing countries within the framework of the Lomé Convention. One third of that assistance was provided to the transport and telecommunications sectors. The Community also had special and preferential schemes to help such countries to overcome their geographical difficulties, as well as other obstacles to their development. The countries concerned received 17.15 ECUs per capita under Lomé III and IV arrangements, as compared with 13.48 ECUs for ACP countries as a whole.

283. Other special measures in favour of land-locked countries related to assistance in the areas of food security and self-sufficiency, better fishery resource management, improvement of infrastructure needed for the acceleration

of industrial development and improvement of foreign trade, as well as transit transport services and installations. The ACP land-locked countries also benefited from more favourable treatment under the STABEX scheme. He pledged further support by the Community for these countries.

284. The representative of **India** said that the question of land-locked developing countries was one to which his Government had devoted considerable attention. The land-locked countries faced the challenge of working towards greater integration in the world economy and overcoming the disadvantages they faced in terms of the higher cost of transit transportation. These countries should be provided with the necessary facilities to enable them to participate fully in the international trade arena. The creation of seven new land-locked countries as a result of the break-up of the USSR had increased the urgency of the issue.

285. The transit problem was no longer one of legal right of access to the sea, but of coordination of policies at a bilateral and subregional level to ensure cost-effective and easy access for land-locked countries to world markets. The most effective approach to this problem was to promote cooperative arrangements with transit countries on the basis of equality and mutual benefit in various areas of the transit sector. He also referred to the need to remove differences in infrastructural facilities between land-locked and transit countries, and noted in this regard that India had launched a massive scheme to convert all existing meter gauge rail lines to broad gauge by the end of the year 2000. This would help rail transit from Calcutta to the Nepalese border.

286. It was important to ensure that the rights and facilities provided to land-locked countries should in no way infringe upon the legitimate concerns and interests of transit countries. He called upon the donor community to give priority to financial and technical assistance in both the land-locked and the transit countries in order to assist them in improving the transit system. Incentives should also be given to transit countries to improve their transport network, as well as to take responsibility for the maintenance of transit systems. Regional trade between land-locked countries and their transit neighbours should also be promoted as a means of reducing the need for high-cost trade with overseas markets.

287. The representative of **China** complimented the UNCTAD secretariat for its documentation. His delegation endorsed the conclusions and recommendations of the Meeting of Governmental Experts from Land-locked and Transit Developing Countries and Representatives of Donor Countries and Financial and Development Institutions. He noted that transit issues were important and complex. They involved juridical questions concerning freedom of transit as well as technical and operational matters which needed to be resolved within the framework of cooperative arrangements. China provided assistance to both land-locked developing countries and transit countries. It maintained a bilateral agreement with Mongolia and was party to a number of international conventions, such as the Kyoto Convention, the Warsaw Convention and the 1972 Customs Convention on Containers. China urged the international

community to continue to provide assistance to land-locked and transit developing countries to enable them to resolve their transit problems on the basis of mutual benefit and equality.

288. The representative of **Afghanistan** said that the Meeting of Governmental Experts held in New York had been a very useful and important one. His delegation fully endorsed its conclusions and recommendations and called for appropriate concrete action for their implementation.

289. During the last 15 years of war and destruction, his country had lost its transit-transport infrastructure. Afghanistan was not only a land-locked country but it was also a potential transit country for the newly independent Central Asian Republics for their trade access to and from the subcontinent. He therefore called upon the donor community to provide the necessary support to his country for reconstruction and rehabilitation purposes. He requested UNCTAD's collaboration with the regional institutions such as the Economic Co-operation Organization (ECO) and ESCAP in order to assist Afghanistan in the preparation and implementation of measures to improve the transit system, including the carrying out of the relevant feasibility studies.

290. With regard to the conclusions and recommendations of the Meeting of Governmental Experts, he called upon the Board to request the UNCTAD secretariat to hold consultations with the developing land-locked countries and their transit neighbours at both the national and the subregional level with a view to assisting them in their implementation. He also called on the UNCTAD secretariat to organize workshops and expert group meetings on specific issues of concern to the land-locked countries and transit developing countries on the basis of the studies that the UNCTAD secretariat had carried out.

291. The representative of the **United Republic of Tanzania** said that the agreed conclusions and recommendations of the Meeting of Governmental Experts form Land-locked and Transit Developing Countries and Representatives of Donor Countries and Financial and Development Institutions covered a wide range of important issues. His country provided transit facilities to its five neighbouring land-locked developing countries but, as a least developed country, it required donor support to expand and maintain these facilities properly. There was a need to further promote cooperation with the neighbouring land-locked countries in various fields of transit operations with a view to sharing the burden of improving the transit system on an equitable basis. UNCTAD should continue to provide advisory and technical assistance services relating to transit traffic, including those designed to support human resources development.

292. The representative of **Mongolia** said that the meeting of experts which had been held in New York had been an important one for his country. It had been the first meeting of its kind involving a tripartite dialogue between the land-locked countries, their transit neighbours and the donor community. He fully supported and endorsed the Meeting's recommendations and called upon the international community to implement them.

293. Since its transition to a market economy, Mongolia had taken measures to open its economy to foreign direct investment and had liberalized its trade regime. This had led to better performance in the external sector. Mongolia attached importance to the development of alternative transit routes for its trade with countries other than its immediate neighbours, and in this regard it had concluded transit agreements with China in 1991 and Russia in 1992.

294. Mongolia needed UNCTAD technical assistance for the development of transit infrastructure, services and facilities. His delegation reaffirmed the focal role of UNCTAD on issues related to the land-locked countries and felt that the special programme dealing with the problems of land-locked countries within the UNCTAD secretariat should be strengthened.

295. The **Chairman**, concluding the general debate on this item, said that the deliberations of the Committee had highlighted a number of issues. The report of the Meeting of Governmental Experts from Land-locked and Transit Developing Countries and Representatives of Donor Countries and Financial and Development Institutions had been highly commended. The conclusions and recommendations of the Meeting covering the priority areas for action and the modalities to improve transit systems had been supported and endorsed. The UNCTAD secretariat was called upon, in close collaboration with the regional economic commissions, to hold consultations with the developing land-locked countries and their neighbouring transit countries at both the national and the subregional level with a view to assisting them in implementing the various recommendations contained in the report. The results of the specific studies on transit issues prepared by the UNCTAD secretariat in response to General Assembly resolution 46/212 had been commended and noted.

Action by the Sessional Committee

296. The Committee requested the Board to take note of the report of the Meeting of Governmental Experts from Land-locked and Transit Developing Countries and Representatives of Donor Countries and Financial and Development Institutions and to endorse the Meeting's agreed conclusions and recommendations (TD/B/40(1)/2 - TD/B/LDC/AC.1/4), as well as to take note of the report on the results of the specific studies on transit issues prepared by the UNCTAD secretariat (TD/B/40(1)/4), and to forward them to the General Assembly, together with the comments of the Board for appropriate action. The Committee also requested the Board to take note of the report on the contributions by Governments, international and intergovernmental organizations and non-governmental bodies (TD/B/40(1)/5 and Add.1) and to submit it to the General Assembly.

297. The Committee also took note of the statement of financial implications arising from its consideration of agenda item 7 (TD/B/40(1)/L.4).

Action by the Board

298. The action taken by the Board on agenda item 7 is reported in TD/B/40(1)/14 (Vol. I), section I.B.

Chapter VII

UNCTAD'S ASSISTANCE TO THE PALESTINIAN PEOPLE

(Agenda item 8)

299. For its consideration of this item, the Board had before it the following documentation:

> "Developments in the economy of the occupied Palestinian territory: Report by the UNCTAD secretariat" (TD/B/40(1)/8).

Consideration in Sessional Committee II

300. The **Chief of the Special Economic Unit**, introducing the item, said that the Board's deliberations on this question had acquired special significance in the light of the momentous developments of the past weeks, which the world had witnessed with pleasant surprise and welcomed with great hope. The mutual recognition between Israel and Palestine and the signing of the Declaration of Principles on Palestinian Interim Self-Government Authority constituted milestones in the resolution of conflict between two peoples whose sufferings had preoccupied the United Nations since its inception, and they laid down the foundation for a comprehensive and durable peace. The Declaration of Principles provided the framework for the Palestinian Interim Authority to mobilize efforts towards the revival and reconstruction of the Palestinian economy in the coming years. Such efforts, encouraged and supported by sustained bilateral and multilateral assistance, could pave the way for broader and more ambitious schemes for regional cooperation on an equitable basis.

301. The UNCTAD secretariat's report on recent developments in the Palestinian economy had been prepared in line with the provisions of Conference resolution 146 (VI) and did not reflect, in view of document reproduction deadlines, the most recent development, which constituted a major transformation in the policy environment affecting the Palestinian economy. It was expected that a number of chronic problems confronting the Palestinian economy would now give way to feasible and satisfactory solutions in the years to come. To this effect, the report provided accurate and timely information on the situation of the Palestinian economy. He highlighted the main findings of the report, with special reference to Gaza Strip, dealing with employment, sectoral performance and macroeconomic indicators, as well as environmental problems affecting the Palestinian economy. In accordance with the provisions of the Declaration of Principles, much of the crucial task of policy reform in these and other areas and the promotion of economic and social development was expected to be shifted to the Palestinian Interim Authority. In this, the moral and material support and cooperation of the international community as a whole was urgently needed.

302. He focused attention on some of the areas which the incipient Palestinian self-governing authority would have to deal with urgently and which would also enable UNCTAD to examine the possibilities for extending further assistance to the Palestinian people, within the context of its mandate and areas of competence.

303. One priority area for urgent action and intensified assistance involved steering Gaza Strip away from the increasingly critical economic and social conditions. Immediate job-creation schemes, infrastructural facilities, enhanced human resource development and social services were all key areas for such action. Other areas that required immediate action and support included: the establishment of an efficient and effective public administration system; mobilization of domestic and external resources and their effective allocation for the revival and sustained development of the economic and social sectors; coordination between donors and more sensitive prioritization of aid and inter-agency coordination, including the establishment of an emergency fund or development finance institutions; promotion of entrepreneurial initiatives; comprehensive reform of the financial sector, including the establishment of specialized development finance institutions to cater to the needs of agriculture, industry, housing, trade and tourism; reform of the tax system; mutually beneficial trade arrangements; development of the tourist sector; rehabilitation and construction of physical infrastructures, including housing, transport and communication, land reclamation, water conservation, public utilities and human resource development; and protection of the environment.

304. The findings emerging from the UNCTAD intersectoral study on prospects for the Palestinian economy, with regard to both immediate action and longer-term prospects, would provide useful substantive background for programmes of assistance to be developed by various donors in support of the efforts of the Palestinian people, in the Palestinian territory as a whole and Gaza Strip in particular.

305. The secretariat looked forward to intensified and constructive cooperation with all interested parties in this regard. He particularly addressed himself to the Israeli and Palestinian authorities, expressing UNCTAD's readiness to further contribute, within the context of its mandate and competence, to the revival and reconstruction of the Palestinian economy, thus helping to lay the foundation of a durable peace.

306. The representative of **Palestine** said that the report prepared by the UNCTAD secretariat was comprehensive and objective in its treatment of developments in the Palestinian economy, the obstacles facing it as a result of Israeli occupation and the ways of removing these obstacles and improving the living conditions of the Palestinian people. He thanked the secretariat and the Special Economic Unit for their valuable efforts in this respect.

307. The world had witnessed the start of a decisive transformation in the conditions of the region thanks to the signing of the common Declaration of Principles on the transitional phase for the Palestinian territories occupied by Israel, preceded by mutual recognition between the Palestine Liberation Organization and Israel. This had ushered in a new era based on coexistence

instead of war and conflict, and the recognition by each party of the rights of the other. This constituted an encouraging first step towards achieving a just peace with the Palestinian people exercising their national rights, in particular the right to self determination and the creation of their independent state on their national territory.

308. This agreement was an interim agreement to be followed by a definitive phase in which a just and lasting peace would be reached in the Middle East. The interim period was only intended to terminate Israeli occupation in some populated areas. Accordingly, the work of the United Nations and its agencies over the past years relating to the Palestinian people and occupied Palestinian territories would have to continue until the end of the occupation and the liberation of Palestinian territory. The United Nations must continue to assume its responsibilities with regard to the question of Palestine and make an active contribution in the transitional phase in all areas to meet the needs of the Palestinian people in such areas as building their national authority, holding elections and other aspects of the long-standing responsibility of the United Nations towards the question of Palestine, until such time as the Palestinian people secured all their rights in their territory.

309. The main challenge confronting the Palestinian people was to undertake the process of social and economic development after many years of suffering. He hoped that the international community, with the United Nations at the forefront, would play an important role in responding to the basic needs of the Palestinian people at this crucial stage. This would have to include full coordination between the agencies of the United Nations, and participation by different States in building the necessary infrastructure and in developing the Palestinian economy, as well as relieving Palestinian society of the consequences of decades of suffering under occupation. Thus, there was an increased and more significant responsibility for the Special Economic Unit and UNCTAD as a whole in providing assistance to the Palestinian people.

310. In conclusion, he stated that implementation of transitional autonomy was about to begin, leading to a final stage concerning the final status of the occupied territories and withdrawal of Israeli forces from all occupied territories in accordance with Security Council resolution 242, which all parties considered as the basis for negotiations. The Palestine Liberation Organization, which had enabled the peace negotiations to begin and to continue and which had signed the Declaration of Principles on Interim Self-Government Arrangements in Washington, was committed to protecting the peace process and ensuring its success at all stages. It was equally concerned with promoting and consolidating Palestinian society in all its aspects as essential preconditions for achieving a just peace in the region and the world.

311. The representative of the **Syrian Arab Republic** thanked the Special Economic Unit for the information contained in the secretariat report, which exposed the realities of the deteriorating social and economic situation in the occupied Palestinian territories, as well as obstacles placed by the Israeli occupation authorities in the path of the development of an independent economy by the Palestinian people. He supported the conclusions

of the report, especially regarding the need for intensified international efforts and effective assistance, in coordination with the Palestinian people, to prevent further deterioration in the occupied Palestinian territory and to revive the Palestinian economy and lay a sound basis for its future development.

312. He noted the importance of the role of UNCTAD as regards its activities in support of the efforts of the Palestinian people and expressed appreciation for the role of the Special Economic Unit and the studies it had prepared. He supported intensification of the Unit's activities, which could make a positive contribution in the future in response to the needs of the Palestinian people. This would in the end enable the latter to exercise full sovereignty over their land and resources and to build a prosperous and advanced economy.

313. The spokesman for the **Asian Group** (Malaysia) said that a new era had dawned in Palestine with the signing of the historic peace accord for limited Palestinian autonomy in the Gaza Strip and the West Bank town of Jericho. The international community was hopeful that the accord would set the stage for full reconciliation in the Middle East through the achievement of a just, comprehensive and lasting peace between the Arab States, the Palestinians and Israel.

314. Developments in the Palestinian economy during the period under review reflected continued deterioration in the economic and social situation. Restrictive measures had constrained the efforts of the Palestinian people to create an independent economy along with its requisite institutional framework. The international community, which had been conscious of the need for urgent intervention to aid the ailing Palestinian economic and social sectors, should now seize the opportunity that lay before it. In this context, the United Nations had a major role to play. The initiative taken by the Secretary-General of the United Nations to set up a task force aimed at coordinating assistance to the Palestinian people, as well as the pledges of financial support made by developed countries, were welcomed. He hoped that there would be extensive international participation in the economic and social development of the Palestinian territory, which had long languished on account of international neglect.

315. The Asian Group envisaged UNCTAD as an active partner in the overall effort of the United Nations to enable the embryonic entity to revive its economy. In this regard, the findings of the secretariat reports of the past eight years on the issue should be consolidated to provide a comprehensive picture for action by UNCTAD in all areas of its competence.

316. The representative of **Belgium**, speaking on behalf of the **European Community and its member States**, referred to the historic accord between Israel and the PLO and paid tribute to the foresight and courage of Israeli and Palestinian leaders, who, in signing this accord, were moving in a very decisive manner towards peace. He reaffirmed the commitment of the European Community and its member States to a comprehensive peace and hoped that progress would be made in the framework of other bilateral and

multilateral negotiations on future cooperation. The European Community and its member States would continue to support and participate in international arrangements which would emerge with regard to the accord.

317. The European Community and its member States already constituted the largest single donor to the occupied territory, and they intended to remain a large donor. Thus, the European Community planned to provide an aid package of 20 million ECU immediately, and much more substantial medium-term assistance would be discussed as soon as the Palestinian institutions were in place. As Chair of the multilateral working group on regional economic development, the European Community and its member States were ready to contribute to forms of regional economic cooperation. He concluded by stating that the European Community and its member States wished to take an active part in discussions about the role that the United Nations, including UNCTAD, could play in favour of the Palestinian people in the light of the recent events.

318. The representative of the **United States of America** said that the subject at hand was an extremely important one which the world was watching very closely. The signing of an agreement between Israel and the PLO was a victory for peace, a triumph which belonged to the Israeli and Palestinian peoples, who had reached out to each other. The task of the international community was to breathe life into the Israeli-Palestinian Declaration, and economic assistance was crucial.

319. As a first step, the United States planned to convene a conference in October to explore how the international community could best support implementation of the Israel-Palestinian agreement on interim self-government arrangements. Foreign and finance ministers from the major regional countries, as well as from potential donor countries, would be invited to discuss means of mobilizing resources. World Bank and United Nations representatives would also be included in this discussion. The World Bank was expected to play a major coordinating role in this effort. The United States expected to assemble an initial two-year aid package worth $250 million. In addition, a task force of Jewish and Arab Americans would be appointed to help develop joint projects to spur private investment in the region.

320. He concluded by stating that a coordinated international effort would be required. Obviously, many donors and many institutions would play key roles. He believed that existing institutions and capabilities should be utilized to the extent possible and to avoid duplication. At this point, it was perhaps premature to discuss any specific role for UNCTAD in this effort, but he very much looked forward to the consultations and meetings that would take place in the weeks and months ahead.

321. The representative of **Pakistan** thanked the UNCTAD secretariat for its report on assistance to the Palestinian people, which he fully supported. He was concerned that, despite the deteriorating conditions, the Israeli authorities had continued their efforts to increase tax revenue from the Palestinian population, while the sealing of borders had halted the movement of people and goods. Conditions in the Gaza Strip in particular were alarming, and urgent steps were needed to improve the situation there.

322. He agreed with other countries in the Asian Group who wished to see UNCTAD play an important and active role in United Nations efforts to enable the Palestinian people to revive their economy. He concurred with the view of the Asian Group that the secretariat reports of the past eight years should be consolidated to identify the areas where assistance was most required in the occupied Palestinian territories.

323. The representative of the **Islamic Republic of Iran**, while supporting UNCTAD's assistance to the Palestinian people in their efforts to establish a sound economic base, disassociated his delegation from the statement made on behalf of the Asian Group pending instructions from his capital.

324. The representative of **China** expressed his appreciation for the secretariat report prepared under the item, as well as the introductory statement made by the representative of the secretariat. Only a week earlier, relations between the Palestine Liberation Organization and Israel had undergone an historic change with their official mutual recognition and the signing of the accords on Gaza-Jericho autonomy. He welcomed the initiation of the peace process and the positive actions taken by both the PLO and Israel. This agreement constituted a major step towards a comprehensive settlement of the question of Palestine, offering hope for peace and creating conditions for the economic and social development of the occupied Palestinian territory.

325. UNCTAD had undertaken much work over many years in preparing analyses and reports on the economic and social situation of the occupied territory. The new peace process would facilitate the work of UNCTAD in this field and generate new demands upon it. UNCTAD could provide further recommendations and technical assistance to the Palestinian people in their efforts to manage their own country, promote economic and social development and improve living standards. He hoped that UNCTAD would contribute to that goal.

326. The representative of **Israel** welcomed the general tenor of the remarks by the representative of the secretariat, which showed a marked departure from previous oral reports given by the secretariat. However, the secretariat report contained in document TD/B/40(1)/8 was not substantially different from its predecessors and was coloured by what had become a long tradition of political predisposition and one-sidedness. It pursued the long-term psychological goal of demonizing Israel and its policy in the territories. Its judgement was partisan and its treatment of statistical material questionable, incorrect or misleading.

327. Despite the encouraging remarks of the representative of the secretariat, the Special Unit appeared to have been left behind by events. The mutual recognition by Israel and the Palestinians was an event that most countries welcomed as heralding a true, qualitative change in the nature of the relations between the parties. Understandably, it had caught the Special Unit by surprise, though the peace process in the Middle East had been continuing for some time. The indifference shown by the Special Unit to the achievements of these talks was indicative of the peculiar perspectives which reigned in the Unit. It should not be forgotten that many of the peoples of the region

concerned had even lower per capita incomes than the Palestinians. The involvement of these countries in planning a better future in which all would share was worthy of more than half a page in the report.

328. A further point of concern was the apparently unilateral decision by the Special Unit to engage on a separate study on the status of the environment in the territories. This had never been the subject of a request by the Board, no operative decision had ever been taken by the Board, and it was disingenuous to suggest that it had been. The subject was one on which UNCTAD had only recently embarked, and it was certainly not one in which the Special Unit could claim any competence. Indeed, the same work was apparently being undertaken by UNEP. Moreover, there was a clear contradiction here with the mandate of Cartagena. This digression by the Special Unit was both wasteful of human and financial resources and better dealt with by the bodies authorized and competent to do so.

329. In the new era of peace now dawning in the Middle East, there could no longer be any room for bodies which served a propagandistic purpose. The cultivation of peace, objective analysis and constructive reconciliation, rather than the promotion of a tendentious and politically motivated rewrite of history, must now be the order of the day for the UNCTAD secretariat. The time had come for the Special Unit to ring down the curtain on its endeavours, to bow gracefully from the stage and to give way to the professional sectoral bodies whose task it would be to join in building the future.

330. He proposed that a special ad hoc committee be established, including Israel, the Palestinians, the sponsors of the peace process, intending major donors to the task of Middle East reconstruction and the secretariat. It should have as its task the navigation of a transition from the current outdated mandate and one-sided attitudes of the Special Unit to a new and balanced involvement of UNCTAD with all concerned parties, attempting to do constructive work in the field. In this context, he would welcome the cooperation and involvement of UNCTAD's specialized professional units in the massive task which lay ahead. The future economic and political health of the Palestinian body politic, as well as that of all its neighbours, required an accelerated rate of economic growth in the territories, the provision of infrastructure and the development of old and new sectors of production. To be successful, these developments would have to harmonize with projected trends both in the economy of Israel, which for the foreseeable future would remain the major economic partner of the Palestinians, and in the economies of Jordan, Egypt and other Arab States.

331. In conclusion, he stated that an historic and truly profound turning point had been reached in the Middle East. Courage, both personal and political, had been demonstrated by the leaders of Israel and the Palestinians. He called for an end to the anomalies which continued to characterize Israel's relations with UNCTAD. Could the United Nations and UNCTAD put the barren past behind them? Could they put partisan, regional politics aside and demonstrate that the United Nations was truly a world organization, able to play a part in the building of new edifices wherein all

might dwell? In Washington the week before, a challenge had been thrown down to the international community. He awaited the response, not least that of UNCTAD, with hope and expectation.

332. The representative of the **Republic of Korea** said he supported the views stated by the Asian Group. He welcomed the signing of the mutual recognition and self-rule pact between Israel and the Palestine Liberation Organization. This development constituted a significant step along the road to peace in the Middle East and to international peace. This historic event had occurred as delegations were examining the secretariat report on assistance to the Palestinian people, which was very helpful in understanding the current situation. This debate represented an opportune juncture for a discussion on how the international community could assist the Palestinian people. Economic assistance plans for reconstruction of the self-ruled areas of the Gaza Strip and West Bank were being considered by several countries, including the United States, the European Community, Japan and the Nordic countries, and by international bodies such as GCC and IBRD. In concluding, he recalled his Government's previous grants of $1 million in scholarships for Palestinian students. He wished to record that his Government intended to participate further in the provision of economic assistance to the region when requested, and it would be considering the best avenue for such assistance.

333. The representative of **Norway**, speaking on behalf of the **Nordic countries**, said that the discussion on this item was taking place in a totally new political environment. Israel and the PLO had recognized each other, and a Declaration of Principles had been signed recently in Washington. The international community now faced the challenge of improving its assistance to the Palestinian people and contributing to building peace. Achieving a comprehensive and lasting peace in the region was dependent upon economic development. Accordingly, economic assistance on a considerable scale was required within the context of a long-term commitment by the international community.

334. The economic situation in Gaza and the West Bank called for prompt and extensive aid from bilateral donors and multilateral institutions. The peace agreement also opened up possibilities for regional economic cooperation with a view to building common security and a common future. Notwithstanding the difficulties that the implementation of the agreement would face, it would provide opportunities to enhance confidence and extend cooperation.

335. She concluded that the broadest possible support and cooperation from the international community was required, with UNRWA and other United Nations organizations playing a key role. The specific role of each organization, including UNCTAD, had to be clarified in the light of future developments, though UNDP and the World Bank should be given a leading role in the coordination of international assistance. The Nordic countries, already providing major assistance to the Palestinian people, were ready to contribute fully to the forthcoming international effort to promote economic and social development in the region.

336. The spokesman for the **Latin American and Caribbean Group** (Nicaragua), referring to the historic agreement reached between Israel and the PLO only a few days before, said that his Group wished to express its appreciation for the efforts made by both parties in the search for lasting peace in the region. The report prepared by the UNCTAD secretariat would help determine the assistance which UNCTAD could give, within its terms of reference, to the Palestinian people, taking into account regional ties and the support of the international community. His Group wished to reaffirm its full support for all efforts of the United Nations to determine the role which the United Nations system, and UNCTAD in particular, could play to contribute to the development of the Palestinian people within the context of the prospects for peaceful coexistence between Israel and Palestine.

337. The representative of **Algeria** said that the discussion on this item was taking place within a positive context following the signing of the peace accord in Washington, which she welcomed. The peace process, which she hoped would be comprehensive, demanded long-term support by the international community. The role of UNCTAD in this respect in the past had been useful and valuable, through the preparation of annual reports on the deteriorating economic situation in the occupied territories. She believed that UNCTAD's work should be taken into consideration, especially the intersectoral study being carried out by the Special Economic Unit, which covered 23 social and economic sectors that could benefit from international technical cooperation efforts. She believed that this study could be very useful and that the role of UNCTAD should thus be strengthened in the context of the activities of the organizations of the United Nations system which would now be entrusted with an active role in the reinforcement of the peace process.

338. The **Secretary-General of UNCTAD** expressed appreciation for the pledges of support that many delegations had made in the course of the Committee's discussion for the efforts of the Palestinian people in the arduous task of economic and social reconstruction and development. It was also gratifying to note that delegations had also stressed the contribution that UNCTAD could make to this endeavour.

339. With regard to the statement by Israel, a number of points required comment. The representative of Israel had said that the report before the Committee "... continued to be coloured by what had become a long tradition of political predisposition and one-sidedness ...". It was, of course, the prerogative of delegations to express judgement on the work of the secretariat, and it was the duty of the secretariat to take such judgement into account, but in subsequent remarks, the representative of Israel had seemed to suggest that this judgement was based on alleged indifference on the part of the secretariat to the achievements of the talks between Israel and the Palestinians. The secretariat's report had been prepared months before the vast majority of countries - not just the UNCTAD secretariat - became aware of the new developments, and the outcome could not possibly have been anticipated by parties who knew nothing about the talks.

340. The representative of Israel had also spoken of the "... apparently unilateral decision of the Special Economic Unit to engage on a separate study on the status of the environment in the territory, which was never the subject

of a request by the Board ...". However, he had previously, on an informal basis, explained to the representative of Israel the rationale for the action of the secretariat. In particular, requests had been made by delegations at the thirty-ninth session of the Trade and Development Board for proper account to be taken of the environmental situation in the work of the Unit. In considering the matter, the secretariat had been guided by the resolution adopted by the General Assembly concerning the intersectoral project on the occupied territory, which referred specifically to human settlements and the living conditions of the Palestinian people. The secretariat's conclusion had been that it had no alternative but to examine relevant issues concerning the environmental situation, in line with the emphasis placed by UNCED on the integrality of environmental protection to the development process. The representative of Israel had also been informed that, should delegations so wish, the secretariat would be prepared to delete the environmental dimension from the intersectoral project. He trusted that delegations would agree that, if such collective guidance was not forthcoming, the secretariat must exercise a minimum of discretion in the interpretation of intergovernmental decisions concerning the work programme.

341. In response to another point made by the representative of Israel that the time had come for the Special Economic Unit to "... ring down the curtain on its endeavours and to bow gracefully from the stage ...", he reminded the representative of Israel that the Special Economic Unit had been established not on the basis of any proposal by the UNCTAD secretariat, but at the specific behest of UNCTAD VI. For that reason, it was not for the Special Economic Unit to initiate its own liquidation. This was entirely a matter for the intergovernmental bodies concerned, and he hoped that the representative of Israel would address his concerns to that quarter.

342. The Special Economic Unit was not a free-standing autonomous entity isolated from the UNCTAD secretariat. It was an integral part of the UNCTAD secretariat, responsible to the Secretary-General of UNCTAD, and any concerns about its work should be addressed to him and not to the Special Economic Unit. He was aware that a few delegations had maintained their dissent from the UNCTAD VI decision which had created the Unit, but he found it surprising that they should so consistently attribute to the UNCTAD secretariat the responsibility for a decision which had been taken collectively by Governments and not by the UNCTAD secretariat.

343. He concluded by stating that the UNCTAD secretariat would lend its full cooperation in the implementation of such decisions as might be taken concerning the nature and evolution of the future work of the secretariat in this area.

344. The representative of the **Organization of African Unity** reaffirmed the solidarity of his organization with the Palestinian people and renewed its support for their legitimate struggle to liberate their territory and to establish a state in conformity with their aspirations. He praised the secretariat for its excellent report on the item. Within the context of the peace process in the Middle East, the report analysed the constraints faced by the Palestinian people and the role that the international community could

play in creating an atmosphere of peace and mutual understanding in this troubled region. The statement by the Secretary-General of UNCTAD should also be seen in that light.

345. His organization rejoiced at the signing, by Israel and the PLO, of an agreement on self-government arrangements for Gaza and Jericho. Through this act of courage and farsightedness, Israel had recognized the PLO as the legitimate representative of the Palestinian people, while the PLO had accepted the right of Israel to live in peace and security. Certainly, the peace process was still fragile and obstacles would arise along the way, especially since difficult issues remained to be dealt with. If the international community increased its efforts to support this agreement and accompany it with increased aid to promote development and cooperation, a new era might begin in the Middle East in which Arabs and Israelis would devote their rich human and natural resources to the creation of a region of peace and shared liberty.

346. The African continent, which was politically and geographically close to the Middle East, saw promising prospects for peace and development in the recent events. He hoped that a climate of confidence would soon emerge and that frank cooperation between Arabs and Israelis would make up for years lost in conflict and tension. In conclusion, he expressed his hopes for a radiant future for the valiant people of Palestine and for all the peoples of the region.

347. The representative of the **Russian Federation** noted the historical importance of the signature, in Washington, of the Declaration of Principles between Israel and the PLO. This accord would allow rapid headway to be made in strengthening the Israeli-Palestinian relationship. It had taken hard work to reach this stage, and his country was willing to play an active part in the practical steps which would now have to be taken. Notwithstanding pending problems, the Russian Federation believed that a global agreement would result from the peace process. With the signing of the accord, it was possible to embark on effective international assistance, one of the priorities of which was the economic development of Palestine. The international community now had to organize financial assistance to permit the development of Jericho and Gaza Strip. Trade exchanges must be envisaged which would be profitable for all countries in the region, and in that UNCTAD could play its role. To this effect, the UNCTAD secretariat should continue its work as in the past, in cooperation with other organizations in the system.

348. The Russian Federation had taken part in discussions with all parties concerned since the beginning of the peace process and had been an active partner in the movement for peace in the world. Now Russia wished also to be an active party to the implementation of this plan. Firstly, an international conference of donor countries would be convened on 1 October, in Washington, to put into effect the Israel-Palestine accord. International organizations, including IMF and IBRD, would participate in the Conference, which would consider, among other things, the pledges already made by some countries and the possibilities of development in the Palestinian territory. Pending issues

relating to the Israel-Palestine accord should be settled in the coming three months. He concluded by reaffirming the Russian Federation's willingness to work for the realization of all decisions in which it participated.

349. The representative of **Palestine** expressed his deep thanks to delegations for their statements and pledges of economic assistance to the Palestinian people in their rehabilitation and reconstruction efforts. He thanked the Secretary-General for his clear and important statement made to the Committee. He noted that the representative of Israel had sought the liquidation of the Special Economic Unit. This was not a new position by Israel on this matter, and it was based on political considerations. It would appear that the representative of Israel had not totally absorbed the implications of the event witnessed by the world in Washington a few days before.

350. He reaffirmed that the phase of reconstruction for the Palestinian people, during the interim period specified by the agreement, was one in which the Palestinian people required full support in all spheres of life. They attached great importance to the work of the Special Economic Unit in the forthcoming period of reconstruction. The Secretary-General of the United Nations had established a task force to prepare for the participation of the United Nations in this process, as had most countries of the world. He could not understand how, while the whole world, including Israel, was preparing to help to rebuild Palestinian society destroyed by occupation, the representative of Israel could propose the dismantlement of one of the units that continued to provide assistance to the Palestinian people on the economic level. This stance was in total contradiction with the agreement. The Israeli representative appeared not to have understood the provisions of that agreement, since the Israeli Foreign Minister had requested the international community to help the Palestinian people in the phase of reconstruction. The UNCTAD Special Economic Unit was one of the bodies engaged in providing assistance to the Palestinian people in the territory which was still occupied by Israel.

351. Some people seemed to believe that the problem in the region had been resolved and that therefore everything must change. However, in fact the problem was still there. What had taken place so far was that the Israeli and Palestinian sides had agreed on a Declaration of Principles which still required implementation. This in turn necessitated not one, but many separate agreements, and everything was subject to negotiation. The outcome of these could not be prejudged prior to their commencement, and the path forward was long and difficult.

352. He reaffirmed that all United Nations agencies, including UNCTAD, should continue their work in favour of the Palestinian people. The United Nations must continue to shoulder its responsibilities in respect of the question of Palestine until it was resolved. Indeed, an Israeli official had stated in an interview to be published soon that the agreement signed between Israel and the PLO did not bind either side. This meant that at any point, Israel could renounce this agreement. What would then have been achieved, if everything that had been established in the United Nations to assist the Palestinian people was dismantled on the basis of an agreement which Israel could renounce at any time? The United Nations must continue to shoulder its

responsibilities with regard to the question of Palestine, which was not simply one of economics, but rather was a national question with economic and other dimensions.

353. The representative of the **Syrian Arab Republic** recalled UNCTAD Conference resolution 146 (VI) which had established the Special Economic Unit (Palestinian people) and which had been endorsed by the General Assembly. The UNCTAD secretariat had tried to implement its mandate with honesty and sincerity, notwithstanding the difficulties it faced in terms of limited resources and the opposition by some States to its mandate. The secretariat's reports provided an important positive contribution to exposing the tragic living conditions of the Palestinian people under Israeli occupation.

354. Since the recent Israeli-Palestinian agreement, even more light had been shed on the realities of the critical conditions in which the Palestinian people continued to live and on the billions of dollars that would be required to help the Palestinian people in the future. This had proven that the previous reports by the secretariat had indeed been necessary, important and accurate, and that their findings were even more profound than had been realized by many. The Unit had made a positive contribution by preparing studies for the international community on the critical living conditions of the Palestinian people. Accordingly, the UNCTAD secretariat and the Special Economic Unit deserved thanks for the role they had played.

355. On another level, he noted that the Secretary-General of the United Nations had established a task force, which included a number of United Nations agencies, to participate in providing support to the Palestinian people. He proposed that the Secretary-General of UNCTAD should bring to the attention of the Secretary-General of the United Nations the potentially positive contribution that the Special Economic Unit could make on this level, together with the reports, studies and inputs of other agencies. This should help the task force arrive at a comprehensive and realistic assessment of the situation of the Palestinian people. He concluded by reaffirming support for the work of the Special Economic Unit and expressed the hope that it would continue to prepare reports and studies as in the past and be strengthened. His delegation would continue to support the United Nations in all its endeavours for justice and peace.

356. The representative of **Israel** said that the debate on the item had been diverted into unproductive and unnecessary institutional paths. He believed that it was necessary to look towards the future in the Middle East, which would soon be undergoing radical transformation. In the past, occupation and boycott had taken their toll, as economic progress had faltered. This could be changed. The parties to the Washington agreements, their friends, the sponsors of the peace process and the donors of the future were about to commence the massive task of construction and reconciliation. The question before the Trade and Development Board was whether the role UNCTAD had to play would be a constructive one that made an impartial and meaningful contribution to the true interests of all who must live together in the region.

357. He proposed that, at this point in time, a dialogue of the involved parties be engaged. While not proposing the creation of new institutions, his delegation would certainly like to see changes in existing institutions and would continue to address that issue as appropriate. Within UNCTAD there existed great reserves of specialist knowledge in many relevant areas. The process of planning the future would gain rapid momentum in the coming months, not years. The groundwork had been laid in the negotiations that had taken place so far, and progress would accelerate in the Israel-Palestine Joint Economic Committee. A sense of urgency was thus called for.

358. The proposal before the Trade and Development Board was to start a process of discussion, organized under the chairmanship of a figure acceptable to all, in an informal and unstructured manner, without budgets or institutional mechanisms. The purpose of these discussions would be to bring a recommendation to the Trade and Development Board for constructive and competent involvement by UNCTAD in the tasks ahead. All parties should be able to participate, with the assurance that they were dealing with each other on a basis of equality, openness and partnership, limited only by a strict appreciation of reality. In concluding, he stated that the task of the Board should be a positive one - to chart a new course, to encourage and foster reconciliation and above all to use the instruments at its disposal to make a contribution worthy of the values it professed.

359. The representative of **Egypt** said she agreed that UNCTAD'S work on assistance to the Palestinian people should be supported effectively. In the past, the Special Economic Unit had undertaken its tasks fully and prepared useful studies in its field of competence. Today, at this critical juncture, it was not enough to praise the past work of the Unit. Rather it was necessary to reinforce the credibility of the studies prepared by the Unit on the regional and international levels, so that they would be taken into consideration alongside other reports and studies prepared on the subject. To this end, the Unit should join the efforts of the Secretary-General with respect to the task force. She asked that consultations take place in this regard so that the Unit's activities might be strengthened in the light of developments in the region.

Action by the Sessional Committee

360. At its 5th meeting, on 24 September 1993, Sessional Committee II took note of the report of the UNCTAD secretariat (TD/B/40(1)/8) and of the statements made during the formal debate on the item.

Action by the Board

361. The action taken by the Board on agenda item 8 and the related statement made by the representative of Israel are reported in TD/B/40(1)/14 (Vol. I), sections I.B and II.A respectively.

Chapter VIII

OTHER MATTERS IN THE FIELD OF TRADE AND DEVELOPMENT

(Agenda item 9)

Item 9 (a) - Progressive development of the law of international trade: twenty-sixth annual report of the United Nations Commission on International Trade Law

Action by the Board

362. The action taken by the Board on agenda item 9 (a) and the related statement by the representative of the United States of America are reported in TD/B/40(1)/14 (Vol. I), sections I.B and II.B respectively.

Item 9 (b) - Market-based mechanisms for the transfer of technology to developing countries

363. For its consideration of agenda item 9 (b) the Board had before it the following note by the UNCTAD secretariat:

> "Market-based mechanisms for the transfer of technology to developing countries" (TD/B/40(1)/CRP.3)

364. Opening the discussion on this item, the **Director of the International Trade Programmes** outlined the main points in the note submitted by the secretariat (TD/B/40(1)/CRP.3).

365. The representative of the **United States of America** said that, although technology transfer was an issue of great global interest and an appropriate subject for UNCTAD, the Ad Hoc Working Group on the Interrelationship between Investment and Technology Transfer had outlined far more work than could be accomplished in the time available. Moreover, the United States did not support the further consideration of the proposal discussed in the note by the secretariat, firstly for financial reasons in view of UNCTAD budget constraints, and secondly as a matter of principle since the proposed price wedge would be a market distortion rather than a market-based instrument. The United States was not in favour of interfering with the market and therefore proposed that the Board postpone work on this issue.

366. The representative of **India** considered that the proposal was important and that it did not amount to a market distortion as it aimed at strengthening the private sector in developing countries which were suffering from resource constraints. He supported the idea that UNCTAD should explore ways of providing concessional resources for the component of cost that developing countries could not meet and suggested that the proposal be further redefined in the Ad Hoc Working Group or in another forum.

367. The representative of **Egypt** stated that her delegation needed additional time before taking a decision on such an important issue.

368. The representative of Chile supported the points made by India and Egypt. He considered the proposal to be innovative and believed that it was a possible facility for supporting technology transfer and that it would not disturb the free functioning of the market. He suggested that the Board might refer the issue to the Ad Hoc Working Group.

Action by the Board

369. At its 828th plenary meeting, on 21 September 1993, the Board decided to refer this item to the Ad Hoc Working Group on the Interrelationship between Investment and Technology Transfer for further consideration.

Chapter IX

STATEMENTS MADE AT THE CLOSING PLENARY MEETING ON 1 OCTOBER 1993

370. Referring to the disastrous earthquake which had occurred in India on 30 September 1993, the **President** conveyed the condolences and sympathy of the States members of the Trade and Development Board to the people and Government of India, particularly for the tragic loss of life and for those who had lost their homes or had sustained serious injury.

371. The spokesman for the **Group of 77** (Brazil) expressed to the Government and people of India, on behalf of all States members of the Group of 77, his deep sorrow for the tragedy that had occurred in the province of Omanabad, India, and hoped that the international community would deploy all efforts to help India to overcome this difficult moment.

372. The increasing interdependence and globality of the world economy contrasted with the lack of adequate instruments for coordination of economic policies worldwide and for addressing the fundamental problems of development and poverty. In order to bridge this gap and take advantage of the potential for progress in the process of reform, it was indispensable to engage in truly universal and democratic dialogue and concertation. That was why the Group of 77 expected a substantive debate on an agenda for development to be held at the General Assembly. Strengthening the role of UNCTAD and of other universal forums could make a genuine contribution to solving these outstanding issues in a mutually beneficial manner.

373. As the Uruguay Round approached its crucial phase, the Group of 77 wished to underline once more the paramount importance of a successful and balanced conclusion. As the ministers of the Group of Rio had stated in the Montevideo Declaration, the need for a successful conclusion of the Uruguay Round had a political significance that went beyond the area of international trade. The attainment of global solutions for problems of economic and social development, in an environment of greater freedom and justice, in particular for developing countries, would depend, to a great extent, on the results achieved in the Uruguay Round. Greater market access for developing countries' products and strengthening of the multilateral nature of GATT rules were essential ingredients, from the point of view of developing countries, for a positive evaluation of the Round.

374. The complex linkages between trade and environment posed significant challenges to the pursuit of sustainable development, and there had only recently developed an increased awareness of the importance of these linkages. UNCTAD's special role in trade and environment should be strengthened, and particular attention should be paid to the problems and special circumstances of member countries of the Group of 77. The policy analysis and technical assistance provided by UNCTAD were proving to be highly useful to Governments in this regard and should be pursued. In this connection, the conclusion to examine the effects of the internalization of external costs on sustainable development and the impact of environment-related policies on export competitiveness and market access at future sessions of the Board was a timely one.

375. In order to maintain the positive aspects of integration arrangements and to ensure the prevalence of their dynamic growth effects, regional groupings should strive to be outward-oriented and supportive of the multilateral trading system. In devising their policies, integration groupings should observe multilateral disciplines and rules, ensure transparency of these rules, regulations and standards and take account of the effects on third countries. The conclusion that UNCTAD should provide new information on developments in regional integration groupings and their implications for other countries was encouraging.

376. The discussions at the current Board indicated that there had been progress in debt problems, mainly with regard to the rescheduling of debt with private banks, as well as a growing degree of concession in the renegotiation of official debt within the Paris Club. The question of the debt stock with multilateral financial institutions was yet to be solved. The Group of 77 considered that the debt problem was, however, a broader question which had to be analysed in the context of foreign financing of developing countries.

377. The Group of 77 reiterated that special attention should be given to the problems of trade and development in the land-locked developing countries. Equally, his Group considered that the problems of the least developed countries and economic assistance to the Palestinian people should continue to receive the full attention of the international community.

378. The spokeswoman for the **Latin American and Caribbean Group** (El Salvador) expressed support for the statement made by the spokesman for the Group of 77. At its current session, the Board had carried out an important examination of the issues that affected the development of the developing countries. Valid proposals had been made for the future work of UNCTAD.

379. The spokesman for **Group B** (Norway) joined the spokesman for the Group of 77 in expressing the Group B countries' deep sympathy to the Government and people of India for the recent tragedy that had befallen that country.

380. Group B considered that the Board had held businesslike and substantive discussions at its current session and that the work had been conducted in an efficient and orderly manner. The conclusions adopted by the Board constituted a basis for further work in UNCTAD.

381. The representative of **China** expressed his delegation's sympathy and condolences for the loss of life occasioned by the recent earthquake in India.

382. The current session of the Board had seen the emergence of a significant consensus on trade and environment, regional integration and other important issues. This would help Governments in their policy-making and would contribute to the creation of a favourable climate of international cooperation in these fields. He expressed appreciation for the excellent contribution made by experts in the course of the session. Naturally, much remained to be done in the coming year, especially on the mid-term review of the work initiated at UNCTAD VIII and on the preparations for celebrating the thirtieth anniversary of UNCTAD. This was in fact a very important period in

the development of UNCTAD. He therefore hoped that all participants would cooperate closely so that UNCTAD could make an even greater contribution to the development of world trade.

383. The spokesman for the **European Community and its member States** (Belgium) expressed the Community's sympathy and condolences to the Government and people of India for the tragedy caused by the earthquake.

384. The spokesman for the **Asian Group** (Malaysia) expressed his Group's heartfelt condolences and sympathies to the Government and people of India on account of the recent tragedy. Furthermore, the Asian Group supported the statement by the spokesman for the Group of 77.

385. The spokesman for the **African Group** (Kenya) conveyed the condolences of his Group to the people and Government of India for the tragedy occasioned by the earthquake. He also fully associated his Group with the statement made by the spokesman for the Group of 77.

386. The representative of **India** said that his delegation was deeply touched by this expression of sympathy for the calamity which had struck his country. The casualty figure was already in the thousands, but the Government had taken emergency measures and the situation was under control. He thanked the members of the Board for the sentiments they had expressed, which would be conveyed to the Indian authorities.

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